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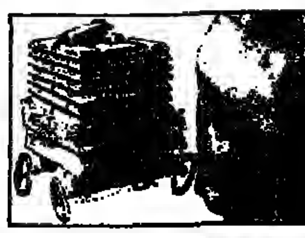

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Falling out of love with gold
TOMORROW

World Business Newspaper http://www.FT.com FRIDAY DECEMBER 12 1997

WORLD NEWS

White House is seeking more time to promote Kyoto accord

The White House bas asked for more time to convince sceptics thet the Kyoto accord on climate change is the right way to save the planet without ruining its economy. President Clinton called the agreement "environmentally strong and economically sound", but vice-president Al Gore said it would not go to the Senate for ratification until more developing countries agreed to participate. Conference reports, Page 4; Editorial Comment, Page 15; Lex, Page 16

Bonn retreats over taxes
Germany's government has been forced into retreat from its agenda of structural reform. It agreed to raise value added tax from 15 to 16 per cent to stop pension contributions rising to record levels, but plans for liberalising the post market were diluted. Page 2; Editorial Comment, Page 15; Lex, Page 16

Spain claims Rock progress
Spain claims to have made "a little progress" in its efforts to break the deadlock over the future of the UK colony of Gibraltar. Page 2

EU set to back finance deal
The EU is set to throw its weight behind a proposed agreement to liberalise global trade in financial services, increasing pressure on the US to back a deal or risk harming the talks. Page 8

Berlusconi's troubles grow
Silvio Berlusconi's troubles as leader of Italy's centre-right opposition have multiplied this week amid signs that other politicians are exploiting his weakness for their own ends. Page 3

Britannia waves farewell
Queen Elizabeth II had tears in her eyes as she said farewell to the Royal Yacbt Britannia when the ship retired from service at the UK's Portsmouth naval base.

Netherlands tax plans
The Dutcb government has unveiled proposals to increase value-added tax and cut the tax burden on workers in fiscal reforms aimed at boosting job creation and adjusting to an ageing society. Page 3

French labour polls disappoint
French elections for union representatives to sit on labour tribunals showed unprecedentedly high abstentions, with only 35 per cent turning out for Wednesday's poll. Page 2

US air gridlock fear
The US aviation system is set for gridlock unless there are wide-ranging reforms and new investment, the Congressionally-appointed National Civil Aviation Review Commission has warned. Page 6

Yeltsin worries persist
Ailing Russian president Boris Yeltsin was well enough to sign an important decree, said tha Kremlin. But Russia's stock market was unconvinced, sinking 6 per cent. Page 2; World Stocks, Page 36

Japan bond plan
An influential committee of Japan's ruling Liberal Democratic party apparently backed proposals to issue some Y10,000bn ($77bn) of government bonds to support the country's financial system. Page 8

To bid or not to bid?
A parchment deed for the sale of 107 acres of land to William Shakespeare in 1602 – expected to fetch £300,000 ($495,000) – failed to meet its reserve price at Sotheby's in London.

BUSINESS NEWS

Russian groups team up to bid for state-owned oil company

Menatep, the Russian industrial group which this week added Eastern Oil to its holdings, plans to team up with Sibneft, another Russian oil company, to bid for Rosneft, the largest Russian oil group yet to be privatised. Page 2

Nomura, Daiwa and Nikko Securities, Japan's three biggest brokers, will no longer provide information showing their market shares of trades on the Tokyo stock exchange. Page 16

India plans to launch its first financial derivetives market by April. A report commissioned by financial regulator Sebi recommends an equity futures contract based on an index of 50 leading stocks. Page 17

ASG, the Scandinavian transport and logistics group, plans to sell its cold storage and food distribution business as part of a wide-ranging restructuring. Page 18

A majority stake in Lithuanian Telecom will be privatised in an international tender in 1998, Lithuania's minister for European affairs confirmed. Page 2

Reebok shares fell by more than 10 per cent in early trading on Wall Street after management downgraded earnings estimates for the 1997 fiscal year. Page 17; Wall Street, Page 24

Seat, the Spanish carmaker owned by the Volkswagen group, is set for record production and an increase of over 30 per cent in turnover this year. Page 20

Credit Lyonnais Securities Singapore, a subsidiary of the French financial group, and a Malaysian brokerage bouse have been charged with short-selling offences. Page 8

Siemens, the German electronics and electrical engineering group, said the turmoil in Asian markets would have little effect on its business in the region. Page 20

Yamaichi Securities, Japan's fourth largest broker which collapsed last month, is poised to sell its Hong Kong operations. Several companies including at least two Taiwanese groups have expressed interest. Page 20

Citicorp has bought the global trust and agency services business of JP Morgan, which covers assets outstanding of $700bn. Page 18

Bank of Nova Scotia, the Canadian bank which has managed Mexican bank Inverlat since the 1995 peso crisis, plans to acquire a majority stake next year. Page 18

Hongkong Telecom is reportedly close to reaching an agreement over the early termination of its international monopoly, now expected to expire in 1999 – a year earlier than predicted. Page 20

Barrick Gold, North America's largest gold producer, could buy back 10 per cent of its stock worth about C$710m (US$507m) in an attempt to prop up its shares, hit by falling gold prices. Page 18; Commodities, Page 26

FMC, the chemicals and machinery conglomerate, became the latest US company to warn thet a slowdown in sales in South-east Asia and South America would hit fourth quarter results. Page 18

Merrill Lynch and Ukraine have agreed e scaled-down version of a bond deal scuttled by IMF objections, the broker said. Page 2

Currency falls for fourth day in a row

S Korea asks IMF to speed rescue deal

By John Burton in Seoul and Gerard Baker in Washington

Sonth Korea is to ask tbe International Monetary Fund and other donors to speed the delivery of a $57bn rescue programme, in an attempt to escape its deepening financial crisis.

But the US, which has pledged $5bn, yesterday brushed aside calls for accelerated assistance, insisting the Korean authorities stick to the reforms promised in the IMF programme.

Fears of possible foreign loan defaults by the world'e 11th largest economy forced South Korean markets downwards again yesterday. .

The threat of a debt implosion caused the Korean currency, the won, to fall by its daily limit of 10 per cent for a fourth consecutive day to 1,719.80 won to the dollar. Asian, European and US markets also came under pressure.

The South Korean finance ministry said it would ask IMF or other donors to the $57bn bail-out to provide "bridging" loans to help pay at least $20bn in short-term overseas debts due by month's end if foreign lenders refused to roll them over.

Korean banks and companies owe more than $100bn in overseas loans over the next year.

Special envoys would go shortly to Washington and Tokyo to discuss additional funds with IMF, US and Japanese officials, the government said.

The IMF had no comment on the Korean request for funds. But Robert Rubin, the US Treasury secretary, said: "They've got a strong programme with the IMF and I think that the key is for them to implement that programme and implement it effectively. That's the process we're all discussing with Korea right now," Mr Rnbin said.

The US, along with other countries, has agreed to provide additional financing if the IMF's and other multilateral lenders' funds prove insufficient. But the $5bn it has pledged will be released only after all multilateral eources have been exhansted. This framework of support was painstakingly constructed in negotiations with Asia-Pacific governments and the US is highly unlikely to agree to its unravelling.

Korea's usable foreign currency reserves now stand at $10bn. Seoul expects another $7.5bn in already scheduled loans this month, including $3.5bn from the IMF, $2bn from the World Bank and $2bn from the Asian Development Bank, said Lim Chang-yuel, the Korean finance minister.

"There is a 50/50 chance that Korea could default soon if sufficient IMF funds don't arrive in time," said a regional economist with e Western brokerage. "My worry is that Korea's problems could spread to Japan and international banks."

New credit downgrades on Korean foreign-currency bond issues by Moody's Investor Service, the US credit rating agencies, dealt a blow to Korea's troubled banks in getting new loans abroad.

Officials at the Korean Development Bank – the main offshore borrowing arm of the government – yesterday said they were likely to postpone a $2bn bond issue which had been planned for this week.

There were also media reports that Korean oil companies, which previously enjoyed open credit lines, were being required by suppliers to submit letters of credit from reputable international banks for each deal. Letters of credit issued by banks promise suppliers that they will meet the debt payments in case of default by the suppliers.

The financial crisis yesterday forced Kim Young-sam, the Korean president, to make his second public apology in the last three weeks about the economy.

Korean deal backed ....Page 6
'An unusual situation' ....Page 15
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Making an entrance: Sinn Féin president Gerry Adams arrives at 10 Downing Street in London yesterday for his historic meeting with UK prime minister Tony Blair. Report, Page 10 Picture: PA

Caterpillar pays $1.3bn for VarityPerkins

US group sees enhanced small engine capability

By Andrew Edgecliffe-Johnson in London and Nikki Tait in Chicago

Caterpillar, the world's largest maker of construction equipment, has acquired VarityPerkins, tha diesel engines business of LucasVarity, the Anglo-American car components group, for $1.325bn.

The move surprised LucasVarity investors as Perkins had been seen as a core division and a driver of sales growth following last year's merger of Lncas Industries and Varity Corporation.

Victor Rice, LncasVarity's chief executive, who ran Perkins in the late 1970s before becoming chairman of its then parent Massey Ferguson, said Caterpillar's unsolicited approach axceeded the "intrinsic valne" put on Perkins by LncasVarity.

The offer coincided with a LucasVarity review that concluded that Perkins, which specialises in "off-highway" engines for industrial, construction and agricultural equipment, would have to expand in "on-highway" engines for cars and trucks.

Mr Rice said the two sectors were converging because of international emissions legislation, but Perkins could not find suitable acquisitions to respond.

UK analysts were divided on the merits of the sale. Many welcomed the price realised for the business but Nick Fothergill of BZW said: "LucasVarity has sold its top-line growth. Tbis will make the group more cyclical.".

Caterpillar said the deal would enhance its position in smaller engines. Perkins mainly prodnces engines in tbe 50-200 horsepower range, while Caterpillar's engines range np to 13,600hp.

"Perkins's prodnct line . . . is an ontstanding complement to Caterpillar's engine business," said Richard Thompson, Caterpillar's president: "The addition of those engines will strengthen our offerings for sale to others, and for powering our own equipment." The Peoria-based company is Perkins's biggest customer.

The US group expects its debt to total capital ratio to remain within the targeted 30-40 per cent range.

Caterpillar shares eased 11/16 to $49¼. LucasVarity ended up 1½p at 191p, having lagged the market by 35 per cent since the merger was announced in May.

Mr Rice took issue with bearish analysts, saying: "We have just sold 15 per cent of our sales for 30 per cent of our market capitalisation. We bave £4bn sales left and a market value of £2bn. That doesn't sound right to me."

The disposal would create a "minor" profit, bnt increase the group's net equity by £400m, he said. It now had scope for £800m of acquisitions in antomotive components and aerospace.

LncasVarity also announced two contracts, worth £500m, to supply fuel injection systems to Ford and Renault, and tha withdrawal from a Volkswagen fuel injection programme using different technology.

Results, Page 21
Lex, Page 14

Brussels in court move over US aviation deals

By Michael Smith in Brussels

The European Commission is to press ahead with legal action against nine countries in the European Union after failing to win support for widening "open skies" aviation talks with tha US.

The Commission, the EU's Brussels-based executive, yesterday lost patience with Germany, the UK, tha Netherlands, Sweden, Finland, Austria, Luxembourg, Denmark and Belgium. It claims their bilateral aviation agreements with the US undermine the single European market in aviation and discriminate against other countries.

The Commission has been seeking wider powers to negotiate with Washington over market access and traffic rights – the right to fly to and inside another country's territory. Neil Kinnock, European Transport Commissioner, said bilateral deals might bring short-term benefits for individual EU countries but allowed the US to continue its "divide and rule" strategy, undermining the Commission's ability to negotiate better access for all EU carriers to the US market.

Under the bilateral deals, US carriers are able to operate operate between European cities but European airlines do not have

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Markets

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	7,837.30	(-141.49)
NASDAQ Composite	1,554.05	(-42.58)
Europe and Far East		
CAC40	2,828.45	(103.73)
DAX	4,030.6	(-87.11)
FTSE 100	5,035.9	(-94.8)
Nikkei	16,050.15	(-427.97)
US LUNCHTIME RATES		
Federal Funds	5½%	
3-mth Treas Bills: Yld	5.165%	
Long Bond	101⅝	
Yield	6.014%	
OTHER RATES		
UK: 3-mo Interbank	7¾%	(same)
UK: 10 yr Gilt	107.0039	(106.297)
France: 10 yr OAT	101.34	(100.7)
Germany: 10 yr Bund	104.97	(104.4)
Japan: 10 yr JGB	109.59	(109.32)
NORTH SEA OIL (Argus)		
Brent Dated	$16.945	(17.02)

GOLD		
New York: Comex		
(Dec)	$284.0	(286.6)
London:	$283.95	(284.15)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.6585	
DM	1.7851	
FFr	5.9095	
SFr	1.4297	
Y	129.6	
London:		
£	1.6540	(1.6515)
DM	1.7733	(1.7830)
FFr	5.9375	(5.9680)
SFr	1.4392	(1.4432)
Y	130.155	(129.025)
Tokyo close		Y 129.40
Sterling		
DM	2.9329	(2.9446)

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Value-added tax to be increased to avert statutory pension contributions reaching record levels

Germany 'dilutes' structural reforms

By Ralph Atkins in Bonn

Germany's government was yesterday forced by political opponents into substantial retreat from its agenda of structural reform.

It agreed to raise value-added tax from 15 to 16 per cent to avert statutory pension contributions rising to record levels. But plans for liberalising the post market were diluted and Bonn was criticised by industry for failing again to agree wide-ranging structural reform, particularly to the tax system.

Mr Peter Hintze, secretary-general of the Christian Democratic Union headed by Chancellor Helmut Kohl, hailed the results of frantic end-of-year talks as "a success for Germany". Statutory pension contributions – shared between employees and employers – would be stabilised at 20.3 per cent instead of rising to 21 per cent.

But the VAT increase from April 1 will raisa inflation by 0.5 per cent. Industrialists warned it would fuel wage demands, as well as hitting domestic consumption.

The effects of a previously agreed cut in the "solidarity surcharge", levied on income taxpayers to fund eastern German reconstruction, would be wiped out.

The association of foreign banks said Frankfurt's strength as a financial centre could be hit. The deals, struck in parliament's conciliation committee, highlighted the grip on Bonn of the opposition Social Democratic party.

Before last night's negotiations, attempts to salvage even a modest package of tax reforms had been abandoned.

Theo Waigel, finance minister, conceded yesterday's announcements did not amount to "a great push to international competitiveness". He promised another tax initiative in the new year which would cut corporation and income taxes. The aim would be to move towards original plans for tax cuts worth DM30bn ($16.8bn) a year.

But it was far from clear whether the government could rebuild any momentum behind reform proposals. Hans-Olaf Henkel, president of the German industry association, said that "instead of bravely taking on a real structural reform of pensions and making a step towards tax-cutting reforms, the existing 'grand coalition' of social politicians has once again shone through".

The compromise on the post law, though welcomed by unions, was sharply criticised by potential competitors to Deutsche Post, the state-owned post service.

Instead of Deutsche Post's monopoly being limited for a transitional period to standard letters under 100g, the limit was raised to 200g. In addition, Deutsche Post will keep until 2003 its monopoly for the bulk sending of letters under 50g.

Overall, only an extra 20 per cent of Deutsche Post's business will be exposed to competition.

The SPD also forced the inclusion of a "social clause" intended to prevent new competitors exploiting low-paid workers. In addition, the revised legislation will make more explicit the possibility of extending Deutsche Post's monopoly beyond the end of 2002.

Wolfgang Bötsch, federal post and telecommunications minister, who feared the legislation would be thrown out, described the compromise as "a victory of reason".

But the association of international express and courier services said the bill "allowed too little room for competitors and hinders private investment".

Editorial Comment, Page 15; Lex, Page 16

Merrill Lynch and Ukraine agree deal

By Charles Clover in Kiev

Ukraine and Merrill Lynch yesterday agreed a scaled-down version of a bond deal scuttled last week by IMF objections, Merrill Lynch sources said.

While the money will probably come only at the end of the month, it should be enough to take pressure off Ukraine's embattled currency, the hryvnia, and boost foreign confidence in Ukraine's treasury bill market.

Merrill Lynch has agreed to market $250m -worth of Ukrainian T-Bills of 9 and 12 month maturities, whose yield of 40 per cent is indexed to the exchange rate of the hryvnia to the dollar, providing the lender some protection against devaluation.

"We are hoping to close the transaction by year-end," said Alex Seippel, a managing director of debt capital markets at Merrill's London office, referring to the sale of the T-bills to investors. Merrill will not actually purchase the instruments but has committed itself to finding buyers for them.

News reports earlier yesterday had indicated the Ukrainian government was still negotiating over how much the bonds would hedge the exchange rate.

Last week, the IMF had objected to the deal, originally worth $450m, on the grounds that a guaranteed exchange rate created an open-ended liability for Ukraine.

But on Wednesday, an IMF representative said the Fund no longer had any objection to the placement, now that the size had been cut in half.

Since the turmoil in financial markets started in late October, Ukraine has found it virtually impossible to place its debt with foreigners, who fund about half of the country's T-Bill market.

As a result, Ukraine has been facing speculative attacks on the hryvnia, and has been forced repeatedly to raise interest rates to avoid a devaluation.

Few foreign investors would be willing to buy Ukrainian T-Bills without hedging the exchange rate, as Merrill Lynch has sought to do.

The deal will allow Ukraine some space to make it through December, when it faces a heavy debt service schedule. This year, Ukraine more than doubled the size of its T-Bill market, as the government borrowed some $2.6bn to fund its deficits, but these short-term obligations are now starting to come due.

Yeltsin's 'health' fails to convince

Boris Yeltsin, Russia's ailing president, was well enough to meet one of his aides yesterday and sign an important decree, according to Kremlin officials seeking to reassure a nervous nation.

In silent video footage released by the Kremlin, Mr Yeltsin, diagnosed with an acute respiratory infection earlier this week, was shown walking and seated during a meeting with his chief of staff.

But Russia's delicate stock market appeared unconvinced, sinking 8 per cent. The fall came on top of a 5 per cent drop on Wednesday, when Kremlin officials first announced Mr Yeltsin would be confined to a sanatorium for nearly two weeks to recover from a cold and slight fever. His illness confirms how much Russia's stability hangs on one man.

Nervous investors and Russia's warring political clans will be watching closely to see if Mr Yeltsin makes a promised public appearance over the weekend, when he is due to vote in Moscow municipal elections. Already, Mr Yeltsin has cancelled his weekly radio address, normally broadcast to the nation every Friday.

Mr Yeltsin's illness forced Bulgarian President Petar Stoyanov to postpone a planned visit to Moscow from December 18-20. But the Bulgarian leader said Mr Yeltsin was well enough yesterday to talk on the phone for 20 minutes.

Bearing up: Boris Yeltsin at the Barvikha sanatorium yesterday Reuters

Trying to keep up an appearance of business as usual, Mr Yeltsin signed a decree aimed at streamlining Russia's bloated bureaucracy by laying off staff and cutting spending on transport, heating and electricity.

Reining in state spending is one of the most important challenges facing Russia's cash-strapped government. Analysts fear reform will be stalled until Mr Yeltsin returns to active politics.

The tremendous powers vested in the Russian presidency, and the fragility of the country's young democracy and market economy, mean Mr Yeltsin's personal importance can hardly be over-stated. Last year, the president's heart attack and bypass surgery threw the nation into political limbo for nearly 8 months.

His role as the ultimate arbiter of all Russia's political and economic disputes could be even more crucial today, when Russia's most powerful financial clans are locked in bitter conflict.

"In our system, everything is concentrated on this one man," said Andrei Piontkovsky, director of the Moscow-based Centre for Strategic Studies. "When he is gone, there is chaos. But even if he reappears soon, his health has again become an issue."

Questions about Mr Yeltsin's competence as a leader were being asked even before this week's illness.

Earlier this year, he had seemed to make a recovery, but his erratic behaviour on a recent visit to Sweden provoked fresh doubts.

Mr Yeltsin's *faux pas* on the trip included asserting Japan and Germany were nuclear powers, haranguing Russia's most powerful executive in the middle of a formal audience with the king of Sweden, and an off-the-cuff radical nuclear disarmament initiative, promptly disavowed by senior aides.

His behaviour prompted condemnation from the Swedish press, including this comment from the Svenska Dagbladet: "The Russian president's visit has led to widespread consternation.

"This VIP breaches protocol, tear his colleagues off a strip in front of the world, talks let's state it frankly confused nonsense on international issues, and carries himself in just the same stiff way we got used to seeing from Soviet leaders in days long gone."

Mr Yeltsin's retreat to a sanatorium has only seemed to confirm this harsh verdict. It will take more than mute video footage to reassure jittery markets and calculating politicians that the Kremlin leader really still rules Russia.

Chrystia Freeland

Menatep lays groundwork for Rosneft bid

Menatep, the Russian industrial group which this week added Eastern Oil to its holdings, plans to team up with Sibneft, another Russian oil company, to bid for Rosneft, the largest Russian oil company still to be privatised, writes Chrystia Freeland in Moscow.

Mikhail Khodarkovsky, head of Menatep, said the alliance was looking for a strategic western partner to boost its chances in what is likely to be the most fiercely contested privatisation battle ever fought in Russia. "I will be the minority partner, the main partner will be Sibneft," said Mr Khodarkovsky, who is currently on a business trip in the US. "I am confident I will be able to find a western partner to participate in our share."

The bid for Rosneft is the next step in Menatep's efforts to become Russia's leading oil company. By adding Eastern Oil to Yukos, the oil company at the heart of the Menatep empire, the group already accounts for about 15 per cent of Russia's total oil production.

But the company's ambitions are even greater. "Our strategy is to focus on the oil business and in that business we want to be number one, or, okay, maybe number two, in the world," said Mr Khodarkovsky.

The Menatep-Sibneft alliance also suggests that the battle lines among Russia's warring political and economic clans are being more clearly drawn. Sibneft is closed linked to Boris Berezovsky, a controversial Russian financier with ties to the Yeltsin family. In its struggle for Rosneft, the Menatep-Sibneft partnership will find itself up against two of Russia's most formidable and most politically connected groups: Gazprom, the Russian natural gas producer, which has formed a strategic alliance with Shell, and Oneximbank, the powerful financial-industrial holding which has teamed up with British Petroleum.

Oneximbank, which has been closely linked to Anatoly Chubais, Russia's first deputy prime minister, has been locked in a "banker's war" with Mr Berezovsky, who has attacked Mr Chubais and his political allies. Menatep has sought to distance itself from Russia's clan wars, but by teaming up with Sibneft the group could find itself drawn into the fighting.

Spain claims some progress on Gibraltar

By David White in Madrid

Spain claimed yesterday to have made "a little progress" in its efforts to break the deadlock over the future of the UK colony of Gibraltar.

Abel Matutes, foreign minister, greeted the fact that Britain had at least agreed to look at Spain's proposals for a period of joint sovereignty and a subsequent arrangement which would guarantee Gibraltar a large measure of autonomy under the Spanish flag.

But after talks in London on Wednesday with Robin Cook, British foreign secretary, he said no grounds existed for "firing off rockets" in celebration.

Diplomats said the atmosphere in the Gibraltar talks had improved since Mr Matutes revived the co-sovereignty idea in January this year with Mr Cook's Conservative predecessor, Malcolm Rifkind. The talks were the 11th round of discussions at foreign minister level since 1984.

Last week, Britain backed off from a confrontation which threatened to prevent Spain joining the new military structure of Nato because of differences over Gibraltar.

Nato defence ministers were able to approve plans for a revamped network of military headquarters, which will include a new regional command in Spain and abolish the small alliance command at present based in Gibraltar.

Mr Matutes used the London meeting to flesh out Spain's latest proposals for a period of shared authority over Gibraltar, which Madrid envisages could last some 50-75 years. The plan, based on a scheme first put forward in the mid-1980s, foresees a programme of joint British-Spanish investment in the territory during this period.

Spain proposes that Gibraltar should subsequently come under its sovereignty, but with wide-ranging self-government provisions similar to those enjoyed by Catalonia or the Basque region.

It also backs a deal which would allow Gibraltarians to opt for either Spanish or British nationality, or both. Under the Spanish plan, Gibraltar would be able to maintain a special tax status within the European Union.

Mr Cook did not reject the plan outright, but reiterated Britain's commitment to respect the wishes of the Gibraltarians, enshrined in the colony's 1969 constitution.

Peter Caruana, Gibraltar's chief minister, said he had made clear before the London meeting that Spain's proposals were unacceptable.

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W Europe's new car market on high note

By John Griffiths

Western Europe's new car market is ending the year on a more buoyant note than industry forecasters had expected, though the upturn has been driven primarily by temporary Italian government sales incentives.

This resulted in registrations in Italy jumping another 44.2 per cent, year-on-year, in November. At 187,400 units, the country's registrations again exceeded those of France and the UK, beaten only by Germany's 255,000 registrations.

The incentives programme has been running throughout the year, lifting Italy's registrations for the year's first 11 months to 2,282,700, a 40.6 per cent rise on last year's period, provisional statistics from the European Automobile Manufacturers' Association (ACEA) show.

Western Europe's November registrations were boosted 10.4 per cent, to 991,800, because of the Italian programme and stronger than expected consumer demand in the UK, Spain and smaller markets such as Ireland and Luxembourg.

The statistics show registrations last month rose in all but four of the 17 markets monitored by ACEA. The region has entered the final sales month of the year with registrations for the first 11 months 4.3 per cent higher, at 12,540,200, against the same period a year ago.

At the start of the year most analysts had expected 1-3 per cent growth. More incentives programmes are likely to be needed next year.

The statistics show a slight weakening of the Volkswagen group's market leadership in the region, its share of registrations slipping to 16.8 per cent last month from just under 18 per cent the previous November.

West European new car registrations
January-November 1997

	Volume (Units)	Volume Change(%)	Share (%) Jan-Nov 97	Share (%) Jan-Nov 96
TOTAL MARKET	12,540,400	+4.3	100.0	100.0
MANUFACTURERS:				
Volkswagen group	2,149,802	+4.4	17.1	17.1
– Volkswagen	1,305,082	-2.4	10.4	11.1
– Audi	432,746	+13.6	3.5	3.2
– Seat	307,144	+15.8	2.4	2.2
– Skoda*	104,830	+37.8	0.8	0.8
General Motors#	1,511,757	+0.5	12.1	12.5
– Opel/Vauxhall	1,452,333	+0.8	11.6	12.0
– Saab**	53,541	+2.7	0.4	0.4
Fiat group##	1,509,204	+12.1	12.0	11.2
– Fiat	1,220,031	+12.8	9.7	9.0
– Lancia	157,378	+10.6	1.3	1.3
– Alfa Romeo	119,402	+7.1	1.0	0.9
Ford group#	1,412,991	+0.9	11.3	11.6
– Ford	1,395,761	+0.7	11.1	11.5
– Jaguar	17,230	+21.1	0.1	0.1
PSA Peugeot Citroen	1,412,254	-1.8	11.3	12.0
– Peugeot	827,573	-2.7	6.6	7.1
– Citroen	584,681	-0.5	4.7	4.9
Renault	1,232,357	+1.7	9.8	10.1
BMW group	768,650	+2.5	6.1	6.2
BMW	401,535	+1.0	3.2	3.3
Rover	367,115	+4.2	2.9	2.9
Mercedes-Benz	465,891	+7.1	3.7	3.6
Volvo	214,893	+11.9	1.7	1.6
Nissan	373,608	+8.6	3.0	2.9
Toyota	346,909	+11.2	2.8	2.6
Honda	204,216	+11.8	1.6	1.5
Mazda	174,071	+5.7	1.4	1.4
Mitsubishi	166,183	+17.6	1.3	1.2
Total Japanese	1,454,119	+11.8	11.6	10.8
Total Korean	263,438	+12.9	2.1	1.9
MARKETS:				
Germany	3,267,500	+0.1	26.1	27.1
Italy	2,282,700	+40.6	18.2	13.5
United Kingdom	2,086,100	+7.1	16.6	16.2
France	1,557,400	-21.8	12.4	16.5
Spain	916,300	+11.1	7.3	6.9

*VW holds 70 per cent and management control of Skoda.
#Includes cars imported from US and sold in western Europe.
**GM holds 50 per cent and management control of Saab Automobile.
Fiat group includes Lancia, Alfa Romeo, Innocenti, Ferrari and Maserati.
Source : ACEA (European Automobile Manufacturers Association) estimates. Figures are rounded.

NEWS DIGEST

Turkey hit by strike over pay

Half a million civil servants went on strike in Turkey yesterday, shutting schools and post offices, and cutting back hospital services to emergency cases only.

Thousands held rallies in big cities nationwide to demand higher wages, collective bargaining rights and the rigbt to strike.

"We want government to negotiate with us," said Irfan Kaygisiz, a spokesman for the Confederation of Civil Servants' Unions.

Civil servants are angry at the government for increasing their wages by 30 per cent for the first half of next year, when inflation is running at 100 per cent annually. The government says bigger rises would just fuel inflation.

Mr Kaygisiz said most of the strikers would go back to work on today. Railway workers, however, would stay remain on strike until tomorrow.

Unlike other unionised workers, Turkey's 1.8m civil servants do not have collective bargaining and cannot legally go on strike. The government unilaterally sets their wages.

AP, Ankara

■ FRENCH TRADE UNIONS

Low turnout in elections

Nationwide elections in France for trade union representatives to sit on labour tribunals have shown an unprecedentedly high rate of abstention. With over 14m employees eligible to vote, only 35 per cent turned out for Wednesday's poll.

The tribunals – known as *conseils prud'hommes* (councils of wise men) – date back to the 13th century and now deal mainly with dismissal pay entitlement complaints. The three main trade union federations – the communist-dominated CGT, the leftist Force Ouvrière (FO), and the moderate CFTD – conducted major campaigns, treating the poll as a key test of their support. Yesterday they were reluctant to admit the outcome represented a serious crisis of public confidence in the unions, whose membership accounts for under 10 per cent of the workforce.

Despite the absenteeism, the vote for the three big federations remained littls changed from the previous elections in 1992. The CGT, held on to 33 per cent, and FO to 20 per cent. Only the CFDT chalked up a modest gain, of 1.5 per cent to 25 per cent.

Robert Graham, Paris

■ LITHUANIAN TELECOM

Majority stake will be sold

A majority stake in Lithuanian Telecom will be privatised in an international tender in 1998, Lithuania's minister for European affairs confirmed yesterday.

Vytenis Junevichius, chairman of the Public Tender Commission, said the government planned to sell a 60 per cent stake of the state-owned firm to the winner, who will be announced next April. The government plans to keep a 35 per cent stake in the company, while 5 per cent must by law be sold to the firm's employees.

A memorandum on the privatisation has been distributed to potential investors by Union Bank of Switzerland, which was appointed as the government's adviser in August.

Large European telecom firms, including France Telecom, Stet International of Italy, Telecom Denmark, Finland Telecom, OTET of Greece and Swedish Telia have expressed an interest in the sale, Lithuanian media reported. in the first nine months of 1997 Lithuanian Telecom made a net profit of 110.3m Litas on turnover of 473.3m Litas.

■ Estonia's foreign currency credit was rated triple B plus, or investment grade, by Standard & Poor's, the credit rating firm. S & P also assigned a single A minus local currency credit rating and A-2 short-term foreign and local currency rating to the Baltic Republic.

Matej Vipotnik, Tallinn

■ SWEDISH CENTRAL BANK

Riksbank raises repo rate

The Swedish central bank yesterday announced an increase in the repo rate from 4.1 to 4.35 per cent in a move partly designed to damp inflationary pressures in the country's economy.

The move followed publication of the Riksbank's quarterly inflation report, which predicted that inflation could increase from 1 to 2 per cent next year, and to 2.5 per cent in 1999. It added that inflation had reached 1.8 per cent in the 12 months to October this year.

Göran Persson, Swedish prime minister, said the interest rate rise was well timed, adding: "We have a strong upturn in the business cycle that in the long term could lead to inflationary pressures – even if they are not there as yet."

He was speaking after the bank forecast GDP growth of around 3 per cent in 1998, rising modestly in 1999.

Tim Burt, Stockholm

■ CYPRUS ECONOMY

1997 growth seen at 2.5%

The Cyprus economy has been recovering steadily from a slump in the first half of the year and the growth rate for the whole of 1997 is expected to reach 2.5 per cent, Christodoulos Christodoulou, finance minister, said yesterday.

While presenting the 1998 budgets, he said the situation in the Middle East and central and eastern Europe offered Cyprus better export prospects than before. He predicted 4.5 per cent growth in real terms for 1998.

Mr Christodoulou said tha fiscal deficit had risen from 1 per cent of GDP in 1995 to 3.4 per cent in 1996 and an estimated 4 per cent this year, as the government adopted an expansionist policy to boost sluggish economic activity in the first half of the year.

But Mr Christodoulou said Cyprus met all the other Maastricht criteria and was preparing feverishly to harmonise its legislation in time for the start of accession talks with the EU next spring.

There had been concern about the performance of the economy in the first few months of the year, when GDP grew by just one per cent. The government blamed this on bad weather conditions and reports in the media about possible trouble on the island.

Andreas Hadjupapas, Nicosia

■ RUSSIAN MILITARY

Air chief quits after crash

General Pyotr Deinekin, the head of the Russian air force, offered his resignation yesterday, one day after being criticised in parliament over an aircraft crash in Siberia in which scores of people died.

An air force spokesman said General Deinekin wanted to step down because he would turn 60 on Sunday, the standard retirement age in Russia's armed forces.

"We confirm that he has offered his resignation because he will be 60 on December 14," the spokesman said.

His future now lies in the hands of President Boris Yeltsin, who is commander in chief of Russia's armed forces and can reject or approve his resignation request.

His decision is clearly complicated by Saturday's air disaster in which a huge military cargo aircraft crashed into an apartment building in the Siberian city of Irkutsk.

General Deinekin, who holds various distinguished military awards, asked to be put on reserve after retirement.

Reuters, Moscow

NEWS: EUROPE

Netherlands unveils fiscal reform proposals

By Gordon Cramb in The Hague

The Dutch government yesterday unveiled proposals to increase value-added tax while cutting the direct burden on labour, in long-awaited fiscal reforms aimed at stimulating jobs growth and adjusting to a rapidly ageing society.

The tax proposals are likely to form an important part of the governing coalition's platform in elections next year.

A white paper endorsed by the cabinet sets out the most thorough overhaul since the 1950s of a tax system often criticised by foreign investors as burdensome.

It was published three months behind schedule, as the coalition of social democrats, reformists and free marketeers sought consensus on the issue ahead of the general election next May.

Reductions in income tax are to be financed by "broadening, shifting and greening the tax base," said Gerrit Zalm, finance minister. Energy levies would double, and VAT would rise to 19 per cent from 17.5 per cent.

Permission would be sought from the European Commission, however, to cut the VAT rate on labour intensive consumer services such as hairdressing to the 6 per cent level, which currently applies to only a few basics. In total Fl 10bn ($4.9bn) would shift from direct to indirect taxation on implementation of the plan, expected by 2002. The tax take from all sources is projected at Fl 202bn for next year.

The top rate of income tax would come down from 60 per cent, though to precisely where would be decided by the government after the election. While fiscally nantral overall, the document gives scope for real cuts in tax which the governing parties all favour but are divided on their extent.

A number of personal tax loopholes are to be closed in what Willem Vermeend, Mr Zalm's deputy and author of the report, described as "one of the simplest systems in Europe and therefore one of the best".

It would curb the widespread offsetting of negative balances on loans and investments against employment income. Also proposed is the setting of a fixed assumed return of 4 per cent on assets including savings, shares and second homes, of which a quarter would be collected each year.

While the Netherlands has no capital gains tax, this would replace current taxes both on wealth and on capital income.

However, the Dutch Federation of Tax Advisers predicted that the measure would be gone within a decade because of European Union initiatives to harmonise taxes further.

Among other moves, companies would be allowed greater latitude in buying in their own shares so the Netherlands remained a competitive listing location within the EU. But the investment industry faces greater restrictions in the tax-efficient annuities and other products it can sell. Those taking advantage of policies with deductible premiums would not be able to escape liabilities on what they pay out on maturity simply by retiring to the Mediterranean.

Berlusconi's troubles grow apace

Others are exploiting his political weakness for their own ends, writes James Blitz

Silvio Berlusconi's troubles as leader of Italy's centre-right opposition have markedly increased this week, amid signs that leading politicians are exploiting his political weakness for their own ends.

Mr Berlusconi, leader of Forza Italia, is continuing to hit tha headlines for his involvement in corruption allegations, and was this week summoned by Milan magistrates to answer questions involving a new investigation into whether he falsified accounts.

He refused to turn up for the hearing, claiming that the magistrates had already "worked out their sentence" and that the summons was little more than an invitation for him to "disappear from the political scene".

But magistrates are not the only bane of Mr Berlusconi's life right now. A more worrying development for the 61-year-old leader has been a sudden rush of activity at his expense from two of the country's best known politicians.

One is Gianfranco Fini, leader of the rightwing Alleanza Nazionale (AN) and Mr Berlusconi's erstwhile ally, who this week began the process of reforming his party and distancing it from Forza Italia.

The other is Antonio Di Pietro, the populist former magistrate and longstanding enemy of Mr Berlusconi, who last month was elected to the Italian senate on a pro-government ticket. He announced plans on Monday to set op his own "centrist" grouping in parliament, a move partly aimed at trying to win over politicians of the centre-right.

Magistrates are not the only bane of Silvio Berlusconi (left). There has been a rush of activity at his expense from Gianfranco Fini (centre) and Antonio Di Pietro (right)

Mr Fini's decision to overhaul his party appears to be the first step in cutting ties with the ailing Mr Berlusconi hut also follows signs that Alleanza Nazionale is itself losing the momentum it enjoyed in recent years.

Until recently, this smooth-talking politician had enjoyed some success in moving his party away from its fascist roots in the process he calls "epurazione" or cleansing. He has condemned anti-semitism in an attempt to broaden support, and managed to win some 94 seats in parliament at the last general election, not far behind Forza Italia'a own performance. This week, Mr Fini took his cleansing project further.

Announcing plans for a congress in Verona in February, he said he would aim to break the final links with the heritage of Benito Mussolini and the "Republic of Salo" period, a reference to the last two years of the dictator's career when his fascist government in north Italy helped with extermination of thousands of Jews.

As a replacement ideology, Mr Fini has had one of AN's more moderate thinkers draw up a party document for the conference, highlighting a range of "new right" principles such as market economics, family values and private health care.

But the neo-fascist elements in the party remain strong and it remains to be seen whether Mr Fini can overcome the formidahla splits in his movement.

For Mr Di Pietro, events are going more smoothly; he re-emerged this week as the wild-card politician triggering most concern on the left and right. As a magistrate he was the hero of the anti-corruption trials that swept Italy in the early 1990s and has long been the politician with the highest ratings in the polls. He was recruited hy Romano Prodi's ruling centre-left coalition to stand as a hy-election candidate earlier this year. Having won a bitter contest against the right by a huge majority, he announced this week he would be forming his own parliamentary grouping.

As with Mr Fini, the move is partly aimed at cutting the ground from under a weaker Mr Berlusconi. There are hopes in the Di Pietro camp of attracting a few right-of-centre deputies to their grouping. Such a move would underpin Mr Di Pietro's reputation as a populist who may uniquely be ahle to unite the political forces of left and right.

The bigger question, however, is what Mr Di Pietro will do with that power. The rumour is that he might like to stand for the Italian presidency when, and if, it is directly elected for the first time in the middle of 1999. But he is resolutely silent on the subject.

Indro Montanelli, a veteran of Italian journalism, warned of how Italy's political culture is still dominated by the "balcony syndrome" – "the square filled with people, eyes fixed on a closed balcony in the hope, mixed with fear, that someone will finally appear". Four years ago, many Italians thought Silvio Berlusconi was the figure on the balcony. In Mr Montanelli's view, "if the square wants someone to appear, it will find that someone".

French bank sets 2% cap on inflation

By Robert Graham in Paris

The Bank of France yesterday announced its broad monetary targets for 1998, with a commitment to ensure that inflation does not exceed 2 per cent either next year or in the medium term.

Unveiling next year's monetary policy, Jean-Claud Trichet, the bank's governor, said the hank had set a target of a 5 per cent expansion in the money supply.

This was compatible with a maximum 2 per cent inflation and with real non-inflationary growth in gross domestic product of approximately 2.5 per cent.

The inflation objective was conservative and was the same as had been projected at this time last year by the bank's monetary council.

November consumer price figures showed headline inflation was running at 1.2-1.3 per cent.

Mr Trichet went out of his way to defend the bank's decision to raise its intervention rate along with the Bundesbank in October, against a hackdrop of continued low inflation.

The French economy and that of continental Europe as a whole was in a phase of strengthening growth, he said. The move was also necessary in order "to preserve the highest level of confidence in the French franc today and the euro tomorrow".

A third motive was to "strengthen the cohesion of the core countries within the European Exchange Rate Mechanism, since repo tender rates are now at the same level in France, in the Benelux countries and Germany".

Next year's growth figures were also cautious, but, Mr Trichet declared, these could be exceeded.

It was too early to assess the impact of the Asian crisis, he added. The bank's survey of new lending corrohorated a firmer demand for credit.

Cumulative flows of new lending were up by 11.3 per cent in the first nine months of the year compared with the same period in 1996.

Next year will be the last in which the four-year-old monetary council sets France's monetary policy.

Mr Trichet said he hoped that the necessary legislation to change the Bank of France's statutes to accommodate monetary union would be in place as early as possible oext year.

OSCE unlikely to find deal on enclave

By Selina Williams in Yerevan, Armenia

European ministers will make another attempt next week to settle the dispute over Nagorno-Karabakh, the ethnic Armenian enclave whose hreakaway from Azerbaijan in the late 1980s led to a bloody war.

The conflict will be on the agenda at the annual ministerial meeting of the Organisatton of Security and Co-operatton tn Europe (OSCE) in Copenhagen on December 18-19. Bnt after the Nagorno-Karabakh leadership's rejection of a step-hy-step approach, which both Armenia and Azerbaijan agreed to, it is unclear what the starting point for negotiations could be.

The president of the self-proclaimed repuhlic, Arkady Ghukasyan, has repeatedly said that he wonld never agree to any status subordinating the region to Azerbaijan. The Karabakh leadership is also opposed to the return of any territory to Azerbaijan until the statns is resolved because, they say, there are no security guarantees.

The phased approach envisaged a retnrn of six districts that lie outside the honndaries of Nagorno-Karabakh to Azerbaijan, a gradual return of some of the almost one million Azeri refugees who fled the region after the war and deployment of an international peacekeeping force.

Bnt time could be running out for Armenia to come to a favourable settlement. "The unresolved state of the Karabakh question is not in the interests of Nagorno-Karahakh or Armenia because it is palpably hindering the economic development of Armenia," said Levon Ter-Petrosyan, the Armenian president, in a recent article.

LEGAL NOTICES

NOTICE OF MEETING OF THE HOLDERS OF

10 5/8% Notes due 2004 and
11 1/8% Notes due 2004
of
Ceval Alimentos S.A.

Pursuant to the terms of the 10 5/8% Notes due 2004 and the 11 1/8% Notes due 2004 (collectively, the "Notes") of Ceval Alimentos S.A. (the "Issuer") and the Indenture in respect of a U.S. $250,000,000 Euro Medium-Note Program among Ceval Overseas, Ltd., as Issuer, Ceval Alimentos S.A., as Issuer or Guarantor, Yasuda Bank and Trust Company (U.S.A.), as Trustee, and Others, dated as of July 11, 1995, as supplemented and amended by the First Supplemental Indenture dated as of September 25, 1996 (as so supplemented and amended, the "Indenture"), the Issuer hereby gives notice, as required under Section 6.8(a) of the Indenture and paragraph 18 of the Terms and Conditions (the "Terms and Conditions") of the Notes, that a special meeting (the "Special Meeting") of holders of Notes will be held at:

4:30 p.m. (New York City time) on
January 5, 1998 at the offices of
Graham & James LLP
885 Third Avenue, 24th Floor
New York, NY 10022

The purpose of such a Special Meeting of holders of the Notes is to consider, among other matters, the adoption of (i) certain proposed amendments (the "Proposed Amendments") to the Indenture and the Terms and Conditions of the Notes, including: (A) the amendment or elimination of certain covenants with respect to: "Ranking" (Section 3.7); "Listing" (Section 3.8); "Financial Covenants" (Paragraph 10); "Negative Pledge" (Paragraph 11); "Consolidation, Merger or Sale of Assets" (Paragraph 12) and "Limitation on Transaction with Affiliates" (Paragraph 13); and (B) the elimination or amendment of certain Events of Default set forth in Paragraph 9 of the Terms and Conditions of the Notes, including the amendment of the definition of Indebtedness set forth therein and the elimination of subparagraphs with respect to acceleration of Indebtedness (subparagraph (b)) and incorrect, incomplete or misleading representations in certain documents (subparagraph (d)); and (ii) a waiver of existing defaults and Events of Default. The Section numbers set forth above refer to the Sections of the Indenture and Paragraph numbers refer to Paragraphs in the Terms and Conditions of the Notes. Holders of the Notes will also be requested to waive certain defaults and Events of Default (as defined in the Indenture).

To obtain additional information with respect to the Proposed Amendments and other matters with respect to the Special Meeting, including how to obtain a proxy with respect thereto, holders of Notes may telephone collect to Chase Manhattan International Limited at (800) 303-6202 (toll free) or (212) 479-2195 (collect) or Citicorp Securities, Inc. at (212) 291-0128/7 (collect), the Solicitation Agents for the Special Meeting, or may telephone Georgeson & Company Inc., the Information Agent for the solicitation of proxies at (212) 440-9800 (Banks and Brokers, collect) or (800) 223-2064 (all others toll free).

Yasuda Bank and Trust Company (U.S.A.)
666 Fifth Avenue, Suite 802
New York, NY 10103

EAGLE TRUST PLC
In Members Voluntary Liquidation

NOTICE IS HEREBY GIVEN that We, Ronald Robinson and Richard William Traynor were appointed Joint Liquidators of the above named Company by the members on 1st December 1997. NOTICE IS ALSO HEREBY GIVEN, that the creditors of the above named company which is being voluntarily wound up, are required on or before 31st January 1998 to send in their full Christian and Surnames, their addresses and descriptions, full particulars of their debts or claims, and the names and addresses of their Solicitors (if any) to the undersigned, R Robinson, of Begbies Traynor, Elliot House, 151 Deansgate, Manchester, M3 3BP, a Joint Liquidator of the said Company, and if so required by notice in writing from the said Liquidators, are personally or by their Solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.
This notice is purely formal and all known Creditors have been, or will be, paid in full.
Dated 2nd December 1997
R Robinson, Joint Liquidator

FOREST GATE (CORBY) LTD

NOTICE IS HEREBY GIVEN in accordance with Section 175 of the Companies Act 1985 that:

1. the above named company ("the Company") has approved a payment out of capital for the purpose of redeeming 296,797 of its own redeemable preference shares,
2. the amount of the permissible capital payment for the shares is £296,797,
3. the date for the resolution for the payment out of capital is 28th November 1997,
4. a statutory declaration and auditors report required by section 173 of the Companies Act 1985 are available for inspection at the Company's registered office, and
5. any creditor of the Company may at any time within the five weeks immediately following the date of the resolution for the payment out of capital apply to the Court under section 176 of the Companies Act 195 for an order prohibiting the payment.

Dated: 28th November 1997
COMPANY SECRETARY

THE INSOLVENCY ACT 1986
**BLUESLATE LIMITED
(IN LIQUIDATION)**

NOTICE IS HEREBY GIVEN pursuant to Section 98 of the Insolvency Act 1986, that a meeting of the Creditors of the above named company will be held at The Pipkin Suite, The Insurance Hall, 20 Aldermanbury, London EC2V 7HY on 17 December 1997 at 10.00 am for the purposes provided for in Sections 99, 100 and 101 of the Act.

Creditors should lodge particulars of their claims for voting purposes at Becket House, 1 Lambeth Palace Road, London SE1 7EU before the meeting. Secured creditors (unless they surrender their security) should also include a statement giving details of their security, the date(s) on which it was given and the estimated value at which it is assessed.

Any creditor entitled to attend and vote at this meeting is entitled to do so either in person or by proxy. Completed proxy forms must be lodged at Becket House, 1 Lambeth Palace Road, London SE1 7EU not later than 12 noon on 16 December 1997.

Dated this 8th day of December 1997.

M.E. Mills
Joint Liquidator

No. 005170 of 1997

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF
ARRIVA PLC
(FORMERLY COWIE GROUP PLC)
- and -
IN THE MATTER OF THE
COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the order of the High Court of Justice (Chancery Division) dated 12 November 1997 confirming the cancellation of the Share Premium Account of the above-named Company was registered by the Registrar of Companies on 1 December 1997.

Dated this 3 day of December 1997

Dickinson Dees of Cross House
Westgate Road
Newcastle upon Tyne NE99 1SB
Solicitors for the Petitioner

**NOTICE TO
the holders of
£150,000,000 13% Bonds due 2015
(the "Bonds") of
A.M.P. (U.K.) Public Limited Company**

NOTICE IS HEREBY GIVEN that at the meeting of the holders of the Bonds convened by a notice of a meeting published in the Financial Times on Tuesday 18 November 1997 (the "Notice") and held at 10.00 a.m. (London Time) on Wednesday 10 December 1997 at 5 The North Colonnade, Canary Wharf, London E14 4BB the Extraordinary Resolution set out in the Notice was duly passed.

Accordingly all the Bonds will be redeemed on Friday 12 December 1997 in accordance with the terms of the Extraordinary Resolution at a redemption price equivalent to 165.723 per cent. of the nominal value of the Bonds exclusive of accrued interest which has been calculated as being equivalent to 1.0472 per cent. of the nominal value of the Bonds. On the basis of the above calculation the redemption value is as follows:

£5,000	Principal	£8,286.15
	Accrued Interest	£52.36
£100,000	Principal	£165,723.00
	Accrued Interest	£1,047.22

Payments will be made at any specified office of any Paying Agent set out below against surrender of Bonds together with all unmatured Coupons and Talons appertaining thereto.

Bonds and Coupons will become void unless presented for payment within periods of 10 years and 5 years respectively from 12 December 1997.

Principal Paying Agent
The Chase Manhattan Bank
125 London Wall, London EC2Y 5AJ

Paying Agents
The Chase Manhattan Bank Luxembourg S.A.
5 Rue Plaetis, L-2338 Luxembourg

Banque Bruxelles Lambert S.A.
24 Avenue marnix, B-1050 Brussels

The Law Debenture Trust Corporation p.l.c. as Trustee

12 December 1997

No. 005418 of 1997

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF
THOMSON DIRECTORIES LIMITED
- and -
IN THE MATTER OF THE
COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 26th November 1997 confirming the reduction of the Share Premium Account by £18,366,342 of the above-named Company was registered by the Registrar of Companies on 8th December 1997.

Gouldens
22 Tudor Street
London EC4Y 0JJ
Solicitors for the Company

LEGAL NOTICES

IN THE SUPREME COURT OF BERMUDA
CIVIL JURISDICTION

IN THE MATTER OF
SCOTTISH & COMMONWEALTH
INSURANCE COMPANY LIMITED

and

IN THE MATTER OF
THE COMPANIES ACT 1981

IN THE HIGH COURT OF JUSTICE
(ENGLAND) CHANCERY DIVISION

IN THE MATTER OF
SCOTTISH & COMMONWEALTH
INSURANCE COMPANY LIMITED

and

IN THE MATTER OF
THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that, by an Order dated 13 November 1997 made in the Supreme Court of Bermuda and by an Order dated 14 November 1997 made at the High Court of Justice in the above matter, a meeting was ordered to be convened of the Scheme Creditors (as defined in the Scheme of Arrangement hereinafter mentioned) of the above named company (hereinafter called the "Company") for the purpose of considering and, if thought fit, approving (with or without modification) a Scheme of Arrangement proposed to be made between the Company and the Scheme Creditors (as therein defined) and that such meeting will be held at Chamber of Commerce, Front Street, Hamilton, Bermuda on 2 February 1998 commencing at 10:00am at which place and time all such Scheme Creditors are requested to attend.

The Scheme Creditors may vote in person at the said meeting or they may appoint another person, whether such person is or is not a Scheme Creditor, as their proxy to attend and vote in their place and are requested to complete the Form of Proxy and return it to the Company at Dorchester House, 7 Church Street, Hamilton HM11, Bermuda (facsimile number 441 295 3480) Attn. Jennifer Woods. The Form of Proxy must be received by 5.00pm on 15 January 1998.

Each Scheme Creditor or his proxy will be required to register his attendance at the meeting prior to its commencement. Registration will commence at 9:00am.

By the Orders, the Courts have appointed Paul Anthony Brereton Evans or failing him Richard Pashing to act as Chairman at the said meeting and have directed the Chairman to report the result of the meeting to the Courts.

Copies of the Scheme of Arrangement and the Explanatory Statement required to be furnished pursuant to Section 100 of the Companies Act 1981 of Bermuda and Section 426 of the Companies Act 1985 of Great Britain Forms of Proxy for use at the meeting and the Claims Form are available from the Company's offices at the above address.

The Scheme of Arrangement will be subject to the subsequent sanction of the Courts.

Dated this 25 day of November 1997.

Conyers Dill & Pearman
Clarendon House
2 Church Street
Hamilton HM CX
Bermuda

Clifford Chance
200 Aldersgate Street
London EC1A 4JJ
United Kingdom

ISLAMIC SUMMIT

Boost for reformists in Iran

By Robin Allen in Tehran

This week's Islamic summit in Tehran has given a strong *boost to Iran's new President* Mohammad Khatami and showed Iranians the welcome they can expect on the world stage if they eschew harsh anti-western rhetoric.

Many of Iran's stinging comments about Israel's occupation of Islamic territories and its ownership of nuclear weapons, as well as condemnation of US interference in the affairs of Moslem states, have been retained in the Tehran Declaration, one of two documents forming part of the final communiqué as the summit drew to a close yesterday.

However, it is Mr Khatami, rather than Ayatollah Ali Khamenei, Iran's spiritual leader, whose international and domestic standing has been enhanced. While the latter is seen as a figure of the militant Islamic Revolution which is over, Mr Khatami is seen to represent the future as well as the present.

The Tehran Declaration contains all of the priorities emphasised by Mr Khatami in his opening speech.

It condemns the continuing Israeli occupation of Palestinian and other Arab territories; calls for "the liberation of all" of them; condemns Israel's "state terrorism, in utter disregard of all legal and moral principles".

The declaration calls for a nuclear free zone in the Middle East, for Israel to join the Nuclear Non-Proliferation Treaty – which Iran has already ratified – and for Israel to put its nuclear installations under the supervision of the International Atomic Energy Agency.

Apart from condemning the US Helms Burton law on Libya as well as the Iran-Libya Sanctions Act, it also condemns all forms of terrorism.

It *reiterates Organisation* of Islamic Conference support for tolerance and freedom of expression, issues which Mr Khatami has made his own in the power-play now going on in Iran.

Kofi Annan, United Nations secretary-general, praised Mr Khatami as a man of his times, who believed in the rule of law and popular sovereignty and was "determined to work with his neighbours and the rest of the world".

But he made only a perfunctory reference to Ayatollah Khamenei, whose shrill address was full of talk of plots by the enemies of Islam and the depravity of western civilisation.

The final communiqué, over which delegations were still wrangling four hours after the official closing ceremony was due to have started, is likely to be watered down to avoid criticism of Turkey over Ankara's military links with Israel and its incursion into northern Iraq. It will also avoid other issues sensitive to individual members.

According to Sayeed Fahad Bin Mahmoud al-Said, the head of Oman's delegation, "neither Turkey, nor Iran's occupation of three Gulf islands claimed by the UAE, nor the civil war in Afghanistan" would feature in the final communiqué "beyond general expressions of encouragement to find solutions".

The US and western military presence in the area "are not issues for the OIC because they only concern the individual defence arrangements of each member state," Mr Sayeed Fahad added.

Climate change

KYOTO ENVIRONMENT CONFERENCE

Moment of success: Raul Estrada-Oyuela, right, embraces Japanese environment minister Hiroshi Ohki as the treaty is sealed AP

Brisk mediator who drove reluctant Cow to consensus

By Bethan Hutton in Tokyo

Officially, yesterday's agreement on tackling climate change will be known as the Kyoto Protocol. In truth, it should be termed the Estrada Agreement.

Raul Estrada-Oyuela, the Argentinian chairman of the central negotiating committee, was almost single-handedly responsible for forging consensus out of threatened collapse. Mr Estrada's Committee of the Whole – which inevitably became "the Cow" – is where the deal was put together.

As the official deadline – midnight on Wednesday – passed without agreement, Mr Estrada remained determined to get a treaty. He put together a new draft – including the outcomes of meetings between key parties, mainly the US, EU, Japan, China and the G77 group of developing countries, and of telephone calls bouncing between world leaders.

The Cow, which included delegates from all 160 countries at the conference, met at 1.30am to go through Mr Estrada's draft protocol paragraph by paragraph. He set a brisk pace, and made full use of his power under the convention rules to determine when consensus had been achieved. Several times objectors were left open mouthed as Mr Estrada brought down the gavel to declare a paragraph adopted by consensus when they had hardly finished stating their opposition.

He scolded countries for not making useful suggestions at a time when they could have been acted on, and cut short verbose delegates with reminders that the time left with full interpretation services was ticking away, and that many of those present – himself included – were in danger of missing their planes. What saved his approach from being draconian was his unflagging good humour and strictly unpartisan approach.

As the sun rose over Kyoto and the corridors started to buzz with vacuum cleaners and rubbish collectors clearing the conference centre for its next occupants, Mr Estrada did not even pause for breakfast.

The only sign of tiredness was his frequent lapses into Spanish, rather than his usual English. In the end, Mr Estrada did not make his flight: when the protocol was finally adopted by the plenary session of the conference yesterday afternoon, he was up on the podium rather than asleep on a flight to his ambassador's post in China.

Deals and delays in 11-day marathon

By Bethan Hutton

The treaty approved in Kyoto yesterday included most – but not all – of the key points at issue during the 11-day negotiations. It covers:

■ An average cut in greenhouse gas emissions by industrialised countries of 5.2 per cent from 1990 levels between 2008 and 2012. Targets are in several bands: reductions of 8 per cent for the EU and several eastern European countries, 7 per cent for the US, 6 per cent for Japan, Canada, Hungary and Poland, 5 per cent for Croatia; stabilisation for New Zealand, Russian and Ukraine; increases of 1 per cent for Norway, 8 per cent for Australia, and 10 per cent for Iceland.

■ Six greenhouse gases: carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. The first three have formed the bulk of greenhouse emissions to date, but emissions of the latter three, used mainly as substitutes for ozone-destroying chlorofluorocarbons (CFCs), are growing, and their warming potential is up to 20,000 times greater than carbon dioxide. Reduction targets for them can be based on 1995 emission levels, as usage was low before CFCs started to be phased out.

■ A "clean development mechanism", based on an Brazilian idea, which would allow industrialised countries to gain credit for investing in reducing emissions in developing countries, whether by increasing energy efficiency in new power plants or participating in forestry projects.

■ Emissions trading between developed countries. This will allow the US, for example, to buy extra emissions rights from countries like Russia, which should easily meet their reduction targets.

■ "Sinks", the term for the promotion of forestry and other ways of absorbing carbon dioxide from the atmosphere to counteract emissions. Despite controversy over the scientific basis of calculations on the effectiveness of sinks, countries will be able to offset efforts they make to promote the absorption of greenhouse gases against their emissions.

■ A last-minute amendment stopped Australia walking out by making special allowances for countries which in 1990 had net emissions from land-use change. Australia is the only candidate for making use of this allowance, which means that greenhouse gas emissions from land-clearing projects in 1990 will be added to industrial and other emissions in calculating the base for limiting future emissions.

The treaty does NOT include:

■ An article which would have given developing countries the option to voluntarily commit themselves to limiting emissions growth. This clause, deleted early yesterday after heated debate, could have satisfied the demands of the US Senate for "meaningful participation" from developing countries, but many delegates continued to insist that new commitments, even voluntary ones, for non-industrialised nations were against the terms of the 1995 Berlin Mandate, the agreement at the climate confrence in Berlin on which this week's negotiations were based. The issue will be tackled again at the next conference of the parties to the UN convention on climate change in Buenos Aires next November.

■ Full emissions trading between developed and developing countries. A decision on details of an emissions trading programme has also been put off until next year. Most industrialised countries support the idea of emissions trading, but some developing countries were suspicious that it could be used as a way for developed countries to avoid making cuts in energy use at home.

Pollution warning for UK industry

By Robert Corzine

The UK government is expected to warn companies considering long-term industrial projects that they should be prepared for much bigger cutbacks in greenhouse gas emissions in future.

The warning is expected to be directed mainly at the relatively small number of companies considering very large industrial projects, whose lifespan may stretch over 20 to 30 years or more. Those companies should factor in reductions of as much as 30, 40 or 50 per cent from 1990 levels, say officials. Planners should also be considering the impact of energy costs possibly more than doubling during the life of such projects.

The government hopes industry as a whole will look beyond the 2010 target date and work towards the longer-term reduction of emissions. It is also said to be keen to see market-based mechanisms emerge to help reduce emissions.

But business representatives say the government will also have to show greater flexibility if the cuts are to be implemented in the cheapest possible way. Michael Roberts of the Confederation of British Industry yesterday said there appeared to be little economic analysis behind the government's commitment to cut emissions by 20 per cent.

He said CBI attempts to persuade government departments to explain the economic costs of such a reduction had met "a stone wall".

That view was echoed by Jonathan Selwyn of the UK Centre for Economic and Environment Development, who said there "has not been enough analysis to know what is the cheapest way" to achieve the cuts.

US wavers over financial services deal

By Guy de Jonquières and Frances Williams in Geneva

The European Union was set yesterday to throw its political weight behind a proposed agreement to liberalise global trade in financial services, increasing pressure on the US to declare whether it was ready to back a deal or risk scuttling the negotiations.

President Bill Clinton's senior advisers were yesterday struggling to try to clarify the US position amid *signs that opinion* in the US financial services industry was swinging in favour of reaching an agreement in the world trade organisation.

One trade diplomat said industry attitudes on both sides of the Atlantic were increasingly positive, and many US industry leaders were urging influential congress members to bless a deal.

But Mr Clinton's advisers appear still undecided whether supporting an agreement would strengthen or weaken domestic political support for his international economic policies, after his failure to win fast-track trade negotiating authority and *criticism in Congress* of US-led bail-outs for troubled Asian economies.

Sir Leon Brittan, EU trade commissioner, warned that Washington could jolt fragile confidence in Asia and damage US commercial interests, if it scuppered an agreement by walking away from the negotiating table, as it did at the end of the last WTO financial services talks 2½ years ago.

He said that if the latest negotiations failed, countries might withdraw pledges to liberalise further and renege on their commitments given in a stop-gap 1995 WTO agreement to keep their financial services markets open.

"If anybody is inclined to walk away (from the talks) they should bear the risk very much in mind," he said. Any political plaudits they earned at home for rejecting a WTO deal as inadequate would swiftly "turn to ashes" if other countries reacted by excluding foreign institutions from their markets.

Sir Leon said the liberalisation offers made so far by more than 60 WTO member economies were "impressive", although he was still seeking improvements, notably from Japan, South Korea and India.

Trade ministers of the *EU's* 15 members were poised last night to endorse an unanimous decision by their senior officials to support a WTO agreement. European financial institutions also told Sir Leon they strongly backed a deal.

Sir Leon said he wanted a permanent WTO agreement. But he did not rule out the possibility that, if the US balked at concluding one, the EU would again seek to broker a stop-gap arrangement, as it did at the end of the WTO talks two years ago.

Renato Ruggiero, WTO director general, yesterday urged member governments to agree. But he said that if they were unable to do so, a range of other options might have to be considered to prevent the complete failure of the talks.

Costs in France lower than UK

By Michael Peel in London

France – chosen by Toyota this week for a $670m car plant to Britain's disappointment – has lower business operating costs than its rival for international investment, according to a report published yesterday by the Economist Intelligence Unit.

The EIU survey of costs in 27 countries finds the UK is more expensive than France – and Italy, Sweden, Spain and the Netherlands too.

The EIU studied countries which had attracted significant inward investments, and others with the potential to woo foreign companies in the future. The authors took into account wages and employers' costs, office and industrial rents, telecommunications, corporate taxes, expatriate costs, business travel, road transport and corruption.

The report's main findings conclude that businesses in industrialised nations incur far higher wage and infrastructure costs than in developing countries. In general, nations in south-east Asia are between 10 and 60 times cheaper for business than western countries.

Germany is the most expensive of the countries surveyed, with a relative score of 100. The next most pricey are the US with 91.8 and Belgium with 89.4.

On the other hand, Thailand, Malaysia and Indonesia all score less than six – the authors of the report say the scores would have been even lower if recent currency crises had been taken into account. South Africa has the lowest score of 1.

There are complications to the picture. The survey shows that wage differentials between executives and ordinary workers are higher in the US than in other industrialised countries.

● *World Business Cost Comparisons, Economist Intelligence Unit (+44 171 8301007) $545.*

NEWS DIGEST

Poland speeds steel sell-off

Poland will speed up the privatisation of its steel sector to modernise the industry to compete with European Union producers, Leszek Balcerowicz, the deputy premier for the economy, said yesterday.

Mr Balcerowicz spoke as Polish negotiators in Brussels sought to defuse a dispute with the EU over a timetable for reducing Poland's tariffs on EU steel imports.

Brussels is insisting that Poland remove customs barriers by the end of 1998, as promised in 1991. Meanwhile local industry is insisting that tariffs be kept in place till the end of 2000, so that it can spend more than $1bn on restructuring to cope with open competition from the EU.

International lending agencies have said they will only commit the restructuring funds needed by Polish mills if strategic investors from western Europe are brought in. The bulk of the sector is still in state hands although preparations are under way for disposals of the major mills.

Christopher Bobinski, Warsaw

■ POWER FINANCING

Hopewell finalises $1.3bn loan

Hopewell Holdings, the Hong Kong based infrastructure group, is close to finalising terms for a US$1.33bn loan to finance its remaining power project, Tanjung Jati in Indonesia.

Tanjung Jati was carved out of Consolidated Electric Power Asia (Cepa), the power company spun off by Hopewell and subsequently sold to Southern Company, the US electricity group.

In July of this year Southern took full control of Cepa, buying Hopewell's last 20 per cent tranche for $150m in cash and Cepa's 80 per cent stake in the 1,320MW Indonesian power plant.

The loan, arranged by Hongkong Bank, marks the company's return to borrowing as bankers are increasingly wary of lending on infrastructure projects in South-east Asia following the financial turmoil in the region's markets and deteriorating credit quality. The risk element has been further heightened for projects whose revenue stream will be in local currency, as currencies in the region have been falling against the US dollar.

Louise Lucas, Hong Kong

■ EGYPTIAN GAS

Italians join consortium

Snam, the natural gas affiliate of Eni, the partially privatised Italian state energy group, has joined a consortium trying to build Egypt's first liquefied natural gas plant. Amoco, the US oil company, and Snam will both have 45 per cent stakes in the $1bn project, which also includes the Egyptian General Petroleum Corporation. The consortium has signed a memorandum of understanding with Turkey, which wants to buy 2bn-4bn cubic metres of Egyptian LNG a year.

Eni and Amoco have large tracts of exploration acreage in the Nile delta of northern Egypt. A string of gas discoveries has been made in the area, which Amoco believes will support an export scheme as well as supply Egypt's fast-growing gas industry. Eni has been looking at a variety of pipeline proposals to link Nile delta gas fields with Turkey and other countries in the region. A proposed "peace pipeline" that would have included Palestinian territories and Egypt has fallen victim to the impasse in the Mideast peace process.

Robert Corzine, London

Digital music systems fail to find harmony

Alice Rawsthorn on the troubles besetting new electronic entertainment products

US DVD market

		1997	2000	2003	2006
DVD players	(m)	[illegible]	[illegible]	[illegible]	[illegible]
DVD penetration*	(%)	1.0	12.0	28.5	43
Sell-through DVD units	(m)	[illegible]	[illegible]	[illegible]	[illegible]
Retail DVD revenue	($bn)	0.14	4.034	9.018	13.021

Source: Paul Kagan Associates

* As % of US video homes

Dozens of record executives descended on Sony Music's headquarters in Manhattan yesterday to assess various versions of DVD-Audio – touted as a successor to the compact disc.

The tests were intended to defuse a long-running wrangle over the technology for DVD-Audio, the musical version of digital versatile disc (DVD), the advanced disc once regarded as the hottest new electronics and entertainment product of the 1990s.

Originally, the electronics and entertainment industries hoped to orchestrate a smooth introduction for DVD. But the launch of DVD-Rom, the high memory computer disc, has been dogged by technical disputes, and this week a new dispute erupted over the European debut of DVD-Video, a sophisticated alternative to the video cassette.

For the electronics industry, DVD-Video and DVD-Audio promised to provide new sales at a time when many existing products, notably video cassette recorders and CD players, had hit maturity. Similarly, DVD-Rom offered an *entrée* to the burgeoning computing market.

Entertainment companies were equally enthusiastic about the new discs. Hollywood movie studios regarded DVD-Video as a profitable successor to low-margin video rental. Record labels saw DVD-Audio as a means of persuading consumers to buy new versions of old recordings, as they did with CDs in the 1980s.

Both sectors were aware that if the new discs were to succeed commercially, the same technology had to be adopted worldwide to avoid a repetition of the format war between VHS and Betamax which dogged the video cassette's debut.

The first sign of trouble came in early 1995 when Sony and Philips, the electronics groups that jointly developed the compact disc, threatened to manufacture a different version of DVD-Video to their rivals in the DVD forum, a consortium led by Toshiba.

Eventually, a compromise was reached and the electronics industry agreed a standard technology.

The electronics sector then wrangled with the Hollywood studios over the specifications for DVD-Video software. Concerned about the risk of piracy and the erosion of price differentials, the studios insisted that various versions of DVD-Video be developed for different countries.

These squabbles delayed DVD-Video's introduction in Japan and North America. Several movie studios, including Walt Disney, then announced that they would wait to see how consumers responded before releasing their films on DVD-Video, thereby raising the risk of early sales being depressed by a software shortage.

Disney and other studios subsequently agreed to bring out titles on DVD-Video. Philips estimates that 200,000 DVD-Video players have been distributed to retailers in the US, and at least 500,000 players will be sold worldwide this year.

However, the industry is now concerned that 1998 sales could be impeded by the forthcoming launch of Digital Video Express (Divx), whereby consumers pay $5 to view a film for 48 hours, rather than buying a disc for $20. Disney, Universal and other studios have agreed to supply software for Divx which, some observers fear, could confuse consumers and inhibit DVD-Video's sales prospects in North America.

In Europe, DVD-Video was originally scheduled to go on sale a few months ago. However, film studios were unable to deliver software modified for the European market in time. Some manufacturers, including Matsushita, started supplying DVD-Video players on a limited basis, but most companies postponed until early next year when software will be available.

The industry's frustration erupted in public this week when a senior Toshiba executive accused Philips of being too slow in developing encoding systems for European DVD-Video software. He claimed that Philips' tardiness would cost the industry up to $670m in lost hardware and software sales this Christmas.

The industry is also embroiled in technical disputes over DVD-Rom and DVD-Audio. Sony and Philips broke ranks again by adopting a different technology for DVD-Ram, the recordable version of DVD-Rom. This time, the industry has failed to find a compromise, and two separate versions of DVD-Ram are set to go on sale in North America and Japan.

Another rift has developed in the discussions over DVD-Audio. One camp, led by Sony, favours a different software format to a faction headed by Time Warner. This time, it should be possible to find a solution because DVD-Audio hardware can be devised to play both types of software.

Yesterday's meeting at Sony Music offered an opportunity for record executives to discuss the issue. They also tested the competing technologies bidding for inclusion in the final formula, in the hope that, despite the squabbles, DVD-Audio will be ready for production at the end of next year.

Pollution warning for UK industry

speeds sell-off

NEWS: THE AMERICAS

Brazil presidential poll battle begins

By Geoff Dyer in São Paulo

Brazil's presidential election got under way yesterday when the leftwing Workers' Party (PT) launched Mr Luis Inácio Lula da Silva as its candidate for next October's poll.

Mr da Silva, popularly known as Lula, lost both the last two presidential elections. He is the first leading politician to formally declare himself as a candidate for next year's election.

He will embark on a tour of PT activists around the country to develop tha themes of his campaign, expected to focus on issues such as rising unemployment and education.

The announcement coincided with growing labour onrest in the industrial regioo of São Paulo following the slowdown in economic activity that the Asian economic crisis has caused in Brazil.

Thousands of car workers protested yesterday in São Paulo at plans by Volkswagen and Ford, two of the Brazil's largest carmakers, to reduce production next year. Volkswagen has threatened to lay off 10,000 workers if they do not accept reduced working hours and wage cuts.

Asian jitters returned to the Brazilian stock market yesterday after fears about a financial meltdown in South Korea prompted a sharp fall in share prices.

The São Paulo Bovespa index of leading companies, which dropped 3.8 per cent on Wednesday on concerns over Korea, was 6.1 per cent lower at 8,823 points by mid-afternoon yesterday.

Analysts said investors were also concerned about the impact of the continued problems in Korea on Wall Street.

Market sentiment was boosted when a special committee of the lower house of Congress approved the government's plan to reform the social security system, a central part of its strategy to cut public spending.

The near doubling in interest rates and increase in taxes which the government introduced to defend the currency have hit the motor industry hard. Volkswagen said that sales in November were 40 per cent lower.

Although Mr da Silva is the first candidate to declare, a number of other politicians, including Ciro Gomes, the former finance minister, have been planning bids for the presidency. Fernando Henrique Cardoso, Brazil's president and still the firm favorite to win the election despite the economic downturn, is not expected to launch his campaign until next Spring.

Mr da Silva, one of the most recognised politicians in tha country, regularly scores well in opinion polls and might be expected to benefit from the economic difficulties.

Political analysts believe that he will not be able to seriously challenge Mr Cardoso unless the economic crisis deepens and the government is forced into a devaluation.

Despite record compensation, the employment boom may be peaking

Wall St looks over its shoulder

So far, Wall Street has been the exception to the rule that US salary rises remain moderate despite the strength of the country's economy.

Bonus season is here and workers on Wall Street are taking home record levels of compensation this year. Once bonuses are banked in the New Year, many investment bankers will hope to be offered even more tempting packages by rival institutions.

Even financial analysts, once the poor relations of investment bankers, are being lured by multi-million-dollar deals.

But there are signs the jobs boom may be peaking. For the first time, the accelerating consolidation of the US financial services industry is resulting in Wall Street job cuts – a remedy many on Wall Street have been advocating, as far as others are concerned, for years.

The chill in the air this week may be more than the effect of the season's first snowstorm: the merger of Union Bank of Switzerland and Swiss Bank Corporation, announced on Monday, is expected to result in over 1,500 job losses in the US: the recent merger of Salomon and Smith Barney has so far caused about 500 redundancies, with more to come.

"There is going to be more supply than there has been so we'll start getting more rational pricing," said Richard Durkes, executive vice-president of ABN Amro Chicago Corp.

Joan Zimmerman, executive vice-president of executive recruitment firm G.Z. Stephens, agreed on tha knock-on effect. "Clearly, any time you have supply on the market, which we are now seeing for the first time since about 1991, you will see the froth coming out of the market very rapidly."

Worse, this is happening when trading profits at Wall Street firms have already been hurt by the Asian financial crisis – J.P. Morgan warned earlier this week its fourth quarter trading earnings would be lower than expected, for example.

Ms Zimmerman said the combination of consolidation, stated and unstated losses due to recent market volatility and a slowdown in initial public offerings have already "had a bit of a dimming effect".

Much depends on the markets in 1998. "If this is happening at approximately the same time as market indigestion, then there will be a surplus [of people]," said Michael Lipper of Lipper Analytical. "Will the surplus change the level of compensation? My guess is that if it did, it would take about a year or more. These people will be getting nice severance packages. It will take them a while to be willing to accept lower compensation."

Traders work on the floor of the NYSE recently AP

But the sheer number of redundancies is not the only factor. For the past few years, compensation on Wall Street has been bid up by new entrants attempting to penetrate the market, most notably Deutsche Morgan Grenfell, Union Bank of Switzerland and NatWest Markets.

But in recent months the two British contenders, Barclays and NatWest, have pulled back, and the merger of UBS and SBC has removed another big bidder.

Still, new bidders could emerge. "This clearly will take some of the froth out of the market. But it could be shortlived, as the US market becomes more attractive to other foreigners," said Michael Flanagan, of Financial Service Analytics.

In fact, some foreign banks, such as the Dutch and the French, are known to be considering substantial expansion in the US, and many observers think the UBS/SBC deal will spark more aggressive action by US commercial banks.

Bruce Wasserstein, chairman and chief executive officer of Wasserstein Perrella, the mergers and acquisition specialist, thought about 14 foreign banks and five US commercial banks are in search of a position in tha US market.

Some mid-sized participants are looking to up the ante. Bankers Trust, which just bought NatWest's European equities business, could be interested in picking up some staff, for example. "There might be some really good opportunities" to hire good people from the fall-out of the UBS/SBC merger, said Frank Newman, chairman and chief executive officer.

Rae Rosen, senior economist at the Federal Reserve Bank of New York, said that while pay had been increasing rapidly, oumbers employed on Wall Street had been rising quite slowly, up only 4,200 to 154,000 year-on-year as at the end of October. Pay cuts were not likely to sting too severely. "Second to sports, these are the best paid jobs in the country."

Tracy Corrigan

US faces gridlock in the air

The US aviation system is doomed to gridlock unless there are substantial reforms and new capital investment, a congressionally appointed commission said yesterday, writes Mark Suzman in Washington.

Gridlock would damage the economy and increase the likelihood of more fatal accidents, the National Civil Aviation Review Commission warned.

The commission said the Federal Aviation Administration, chief regulator for aerospace, lacked organisational, management and financial resources to cope with the rapid growth in air travel.

"The current course will impair our domestic economy, reduce our standing in the global market place, and result in a long-term deterioration of aviation safety," the report warns.

The bipartisan commission, appointed last year to examine the state of national aviation programmes and airline safety, adopted a set of recommendations to modernise the air traffic control system.

Norman Mineta, former congressman who chaired the commission, said the report represented a blueprint for change to restructure the system so it could cope with the expected doubling of air traffic by 2010.

NEWS DIGEST

US retail sales inch up 0.2%

In a restrained start to the Christmas shopping season, US retail sales rose just 0.2 per cent last month, marking a continued slowdown in consumer spending after rapid growth earlier this year. According to the Commerce Department, seasonally adjusted sales for November were $213.8bn, 0.2 per cent up from October and 3.8 per cent higher than the same period last year. The rise was below analysts' expectations of a 0.5 per cent increase following a 0.2 per cent drop in spending the previous month.

Meanwhile, in a separate report, the Labor Department announced that the number of unemployed claiming jobless benefits for the first time fell to 311,000 last week, down from a revised 324,000, providing further evidence of the extremely tight labour market. Overall unemployment now stands at 4.6 per cent, its lowest level in 24 years. However, with little sign of inflation building and authorities anxious about the possible effects of the Asian financial crisis on the US market, analysts say neither report is likely to prompt the Federal Reserve to raise interest rates when its Open Market Committee meets on Tuesday. *Mark Suzman, Washington*

■ MEXICO CITY

Mayor suffers setback

Cuauhtémoc Cárdenas, the leftwing mayor of Mexico City, has suffered a serious setback in his first week in office after accusations of torture and drug links forced the resignation of one of his newly appointed police chiefs. Jesús Carrola, head of the capital's investigative police, stepped down on Wednesday five days after taking office amid a storm of criticism about his record while a high-ranking police officer in the north-western Baja California peninsula.

Mr Carrola's hurried departure has raised questions about how thoroughly Mr Cárdenas vetted appointees before offering them jobs. One of Mr Cárdenas' main campaign pledges was to curb corruption and sever links between police and organised crime in the capital. Mr Cárdenas is considered a strong candidate for the presidency in 2000 if he is successful as the first elected – and first opposition – mayor to rule the capital since the 1920s. *Henry Tricks, Mexico City*

■ US BANKING

Record third quarter profits

US commercial banks made record profits in the third quarter, the Federal Deposit Insurance Corporation announced yesterday, as Wall Street sentiment about bank prospects for next year grew sharply gloomier. According to the corporation, commercial banks are on target to break last year's record for annual profits of $52.4bn. Andrew Hove, the corporation's chairman, said that "for banks, the economy is a gift that keeps on giving".

The corporation's data revealed that banks made a profit of $14.8bn in the third quarter, beating the previous record, set in the second quarter of this year, by $131m. Credit card lending, a problem for many banks for the last two years, lay behind the strong growth, with many of the larger banks which specialise in the area recording strong reductions in bad debt write-offs on their card portfolios. *John Authers, New York*

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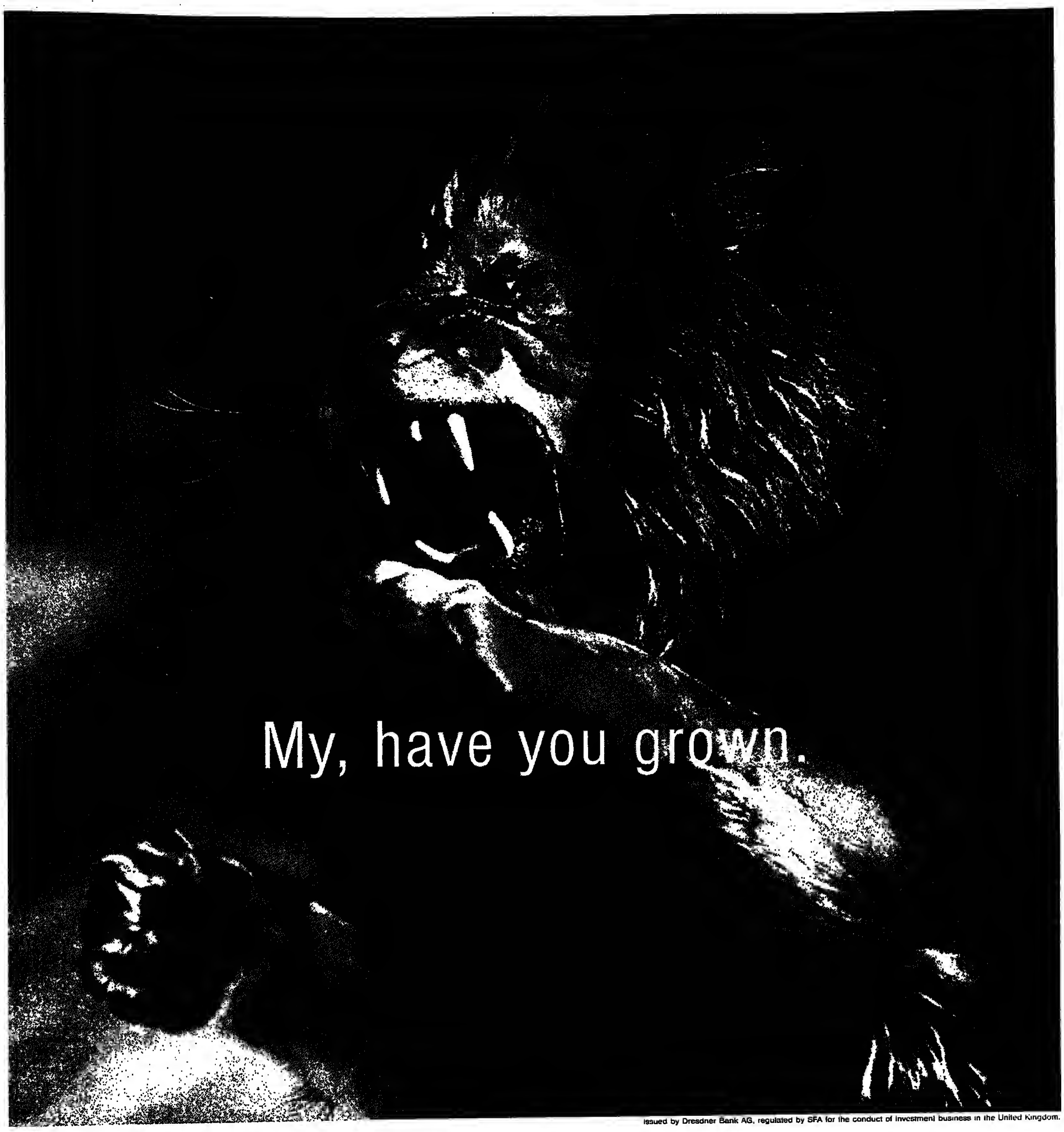

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Asia's markets upheavals have narrowed the economic options for Seoul

IMF and US stand by Korea deal

By Gerard Baker in Washington

The International Monetary Fund and the US, the two principal architects of the South Korean international financial ballout, stand unswervingly behind the original programme negotiated with Seoul and continue to urge its swift implementation.

The IMF bad no official comment on the continuing collapse of the Korean won and stock prices yesterday but in recent days officials have made it clear they see no alternative to the Koreans' undertaking the reforms promised under the full Fund programme as the best means of restoring stability.

For the US, which has pledged supplemental financing of $5bn should tbe IMF's funds prove insufficient, Robert Rubin, the treaeury secretary, said yesterday Korea must implement the reforms. "They have taken a number of very important measures and they have a lot to do and that's tbe process that's under way," be said.

But the problems for the US and the IMF were amply demonstrated yesterday with a sbarp fall in US stock prices, produced mainly by fears over the potential spread of Asia's problems to US companies. The risk of a complete collapse in Korea'e economy, accompanied by defaults on loans to US and other banks, raises the stakes for the US authorities significantly.

Though officials insist the Koreans must implement the radical reforms, they know also that the costs of failure if they do not could embrace the US and world financial markets.

Pressure of a different source may also be brought to bear on the US and IMF, however. In recent days a growing chorus of criticism has sounded throughout Washington over the IMF's approach in dealing with the broader Asian crisis. Critics have questioned the appropriateness of tough monetary policies and other bromides for an economy such as Korea with huge financial sector problems.

Last week produced the merest hint of an internal dispute within the multilateral lending institutions, when Joseph Stiglitz, tbe chief economist at the World Bank, warned that the Asian problems were not like those the IMF had dealt with in Latin America in the 1980s. Though officials deny any differences over Fund programmes, the suspicion of any internal dabate may make the Koreans bolder in resisting reforms.

But for the time being, the IMF and the US aeem unlikely to flinch in the face of such pressure.

The US, with other countries, including Japan and Germany, is committed to lending money as a "second line of defence" to be used only when the multilateral lending has been exhausted. The desire to force tough reforms on Asian governments in exchange for lending, and domestic political hostility to any support for Asian countries, means the Treasury is unlikely to agree any greater help for Korea.

Indeed, Mr Rubin indicated strongly when the package was agreed that the US thought it highly unlikely its $5bn would ever have to be used.

Credit rating takes a tumble

By Edward Luce

South Korea's sovereign credit rating was slashed by three notches yesterday to just one level higher tban junk bond status.

The downgrade, issued by Standard & Poor's, the US agency, pnts Korea in tbe same risk category as Egypt, Colombia, Poland and Indonesia. This means that Korea is considered as likely to default on its overseas debt as other countries rated at the same level.

Just two months ago South Korea, which is now rated BBB minus, was rated at AA minus – the sama level as Italy, Sweden and Portugal. Moody's Investors Service, S&P's main US rival, also downgraded South Korea by two notches from A3 to Baa2.

"Rating agencies bave belatedly realised that there is a very real danger Korean banks and companies could default on their short-term debt," said Christopher Huhne, baad of sovereign ratings at Fitch IBCA, Europe's largest credit rating agency.

Analysts say that Korean entities – including the Korean government – would find it almost impossible in current market conditions to raise capital offshore to service short-term debt obligations. The Korean government's admission tbat the country's short-term debt is well over $100bn – as opposed to its previous figure of $65bn – has added to worries about the country's creditworthiness.

"The confidenca crisis affecting the corporate and banking sectors is such that Korea faces the prospect of recession in 1998," said S&P. "Defaults on unrated private sector debt will jump sharply as a result."

Officials at the Korean Development Bank (KDB) – the main offshore borrowing arm of the government – yesterday said tbey were likely to postpone a $2bn bond issue which had been planned for this week. The secondary market spread of existing KDB bonds has widened from around one percentage point above US Treasury bonds to a spread of over 5 percentage points in the last eight weeks. "Korean debt is already been traded like junk bond debt," said one investment banker in New York yesterday. "They would be crazy to borrow in these conditions."

See Capital Markets page

With a presidential election near, foreign plots are blamed for national ills

Koreans resist the economic facts

By John Burton in Seoul

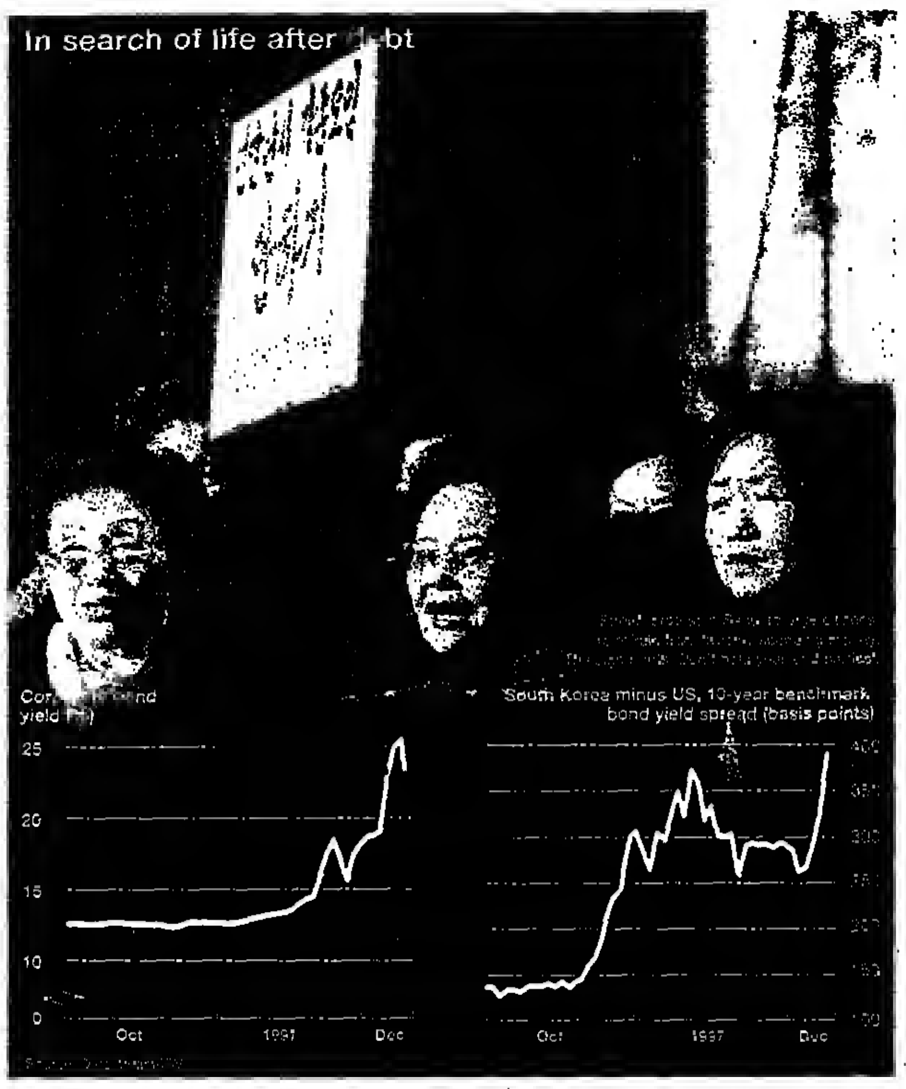
The election campaign for South Korea'a presidency is not pre-occupled by the depth of the country's financial crisis but with tbe height of a candidate's son.

In the glare of television cameras, the height of Lee Soo-yuen, son of the government party's candidate, was measured this week to refute opposition allegations that he was not tall enough to escape military service on grounds of being underweight.

Claims that Mr Lee had gooe on a crash diet to avoid the draft have damaged the governmeot's chances of winning the election next Thursday.

The incident reflects a profound sense of denial as South Koreans confront possibly their worst economic crisis since the 1950-53 Korean war ended. "It's like walking through the looking glass," said a visiting US banker. "There is a frightening total disconnection between how Koreans and foreigners view the situation."

What Koreans call "the miracle on the Han" bas come to an abrupt balt in the last four weeks. The response has been a mixture of confusion, anger and disbelief. "Koreans are refusing to face up to the severity of the crisis. They think they can muddle through," said a western diplomat.



The public has reacted as it has done in previous economic downturns by obeying calls to tighten their belts in the belief that spending less will somebow save tbe nation from its debt crisis.

Seoul's Kimpo airport is nearly deserted as the public heeds demands to curb overseas travel in an effort to save precious dollars and pay off the nation's foreign debt. "I cry every day," said a travel agent about the lack of customers.

For those with possibly less patriotic intentions, customs officials search departing passengers for any unusually large amounts of dollars for spending abroad.

Tbe government has warned that South Koreans who charge more $10,000 on a credit card while overseas could face criminal prosecution, while those spending more than $5,000 might have their credit cards suspended for one month.

No economist has warned that eome austerity measures, such as promises by bousewives to serve smaller meals at home, could deepen the country's plunge into recession since it would further reduce the consumer demand needed to bolster growth.

The media are dominated by stories suggesting that the nation's debt crisis was the result of a plot by the US and Japan to place South Korea under neocolonial economic rule by the International Monetary Fund.

That reflects Korea'a deep distrust of outsiders bred by centuries as a plaything of empires, including the Mongols, Chinese and Japanese. Inward-looking attitudes, the result of nearly 400 years of defensive self-imposed isolation as the "Hermit Kingdom", are also not conducive to opening the country's economy.

The public hopes its resistance to foreign pressure will not only save Korea, but also their jobs threatened by industrial restructuring under the IMF terms.

"There is little understanding that the reforms, although painful, are necessary if Korea is to recover its global competitiveness," said Daniel Harwood, north-east Asian manager for ABN Amro Hoare Govett in Seoul.

But ironically that message is being best understood by those who suffered the worst. The bankruptcy of the Halla shipbuilding group has devastated south-west city of Mokpo, where its new shipyard promised to revive the fortunes of the depressed port.

But there is little talk of blaming others for the city's woes. Instead, "the collapse of Halla was caused by its owners. Their expansion plans were too rapid and too ambitious," said one resident.

HK$ comes under heavy pressure

By John Ridding in Hong Kong

The Hong Kong dollar, the last Asian currency to be linked to the US dollar, came under pressure yesterday as South Korea'a financial crisis fuelled fears of a new round in regional financial upbeaval.

As interest rates rose sharply and the benchmark share index fell by more than 5 per cent, the Hong Kong dollar slipped from HK$7.74 to almost HK$7.75 against the US dollar. So far, Hong Kong has so far resisted the devaluations wbicb bave swept the region, maintaining its link to the US dollar, the linchpin of the financial system, at HK$7.80.

South Korea's tronbles also knocked the wind out of the Taiwan dollar, which opened abarply down before making a startling recovery later in the day.

The Korean won's collapse also prompted the biggest ever drop in the Indonesian rupiah and pushed the Thai babt and Pbilippine peso down to record lows.

Hong Kong's post-colonial leader yesterday rejected the possibility that a an ecooomic slowdowo would erode tbe administration's commitment to tbe dollar peg.

Speaking after talks in Beijing, Tung Chee-hwa also cited China's backing for Hong Kong's atance. "The leadership has expressed support," said Mr Tung.

"I think we can handle the financial turmoil more than adequately," he added, during his first official visit to China since July's transfer of sovereignty.

Investors remained worried, however, that Korea's deepening crisis would drag the Hong Kong dollar into the firing line again and damage the territory's economy. A previous assault in October pushed interest rates sbarply higher, reducing the value of the Hang Seng index by almost 25 per cent in four trading days.

Anxiety was underlined by the weak response to a government land auction, where a residential site fetched less than expected. Property prices have already fallen by between 10 and 20 per cent since the beginning of October, with further declines expected. "A lot of big developers are pushing properties on to the market at the moment at reduced prices," said Archie Hart, director of equities at BZW. "That suggests they think things are going to get worse."

Although currency traders said they saw little evidence of substantial speculative positions being built against the Hong Kong dollar, with volumes relatively light, the jump in interest rates underlined anxieties. Three-month interbank rates jumped from 9.2 per cent to 11.4 per cent, with overnight rates climbing from 4.3 per cent to 6 per cent, although they eased alightly in the afternoon.

The Hong Kong Monetary Authority said that it was closely monitoring the market and that the currency remained on the strong side of its link to the US dollar.

The rise in interest rates rattled the stock market, with property and banking shares leading the decline. After recovering ground over the past few weeks, the Hang Seng now stands almost 40 per cent below its August peak.

While the Hong Kong government argues that the atructure of Hong Kong's service-based economy should provide protection from the devaluations which have swept across the region, private sector economists have been downgrading estimates for growth next year.

Many are forecasting that gross domestic product will risa by between 3 and 4 per cent, compared with about 5 per cent this year. Concerns centre on the property and financial sectors, tbe twin pillars of the economy.

See World Stock Markets and Currencies Pages

Malaysia charges brokers over short-selling

By James Kynge and Sheila McNulty in Kuala Lumpur

Credit Lyonnais Secnrities Singapore, a subsidiary of the French financial group, and a Malaysian brokerage bouse were charged yesterday with short-selling offences. The sbare trading practice was permitted last year, only to be banned three months ago – after the alleged offences were committed.

The news contributed to a 7.41 per cent plunge in Malaysia's main share index to 589.18 points. Observers said the legal action had unnerved some in the financial community who feared tbat anthorities might seek to bring similar charges against other brokerage bouses.

Mahathir Mohamad, the Malaysian prime minister, has blamed the sharp decline in Malaysian stock prices since July partly on "manipulators" who engaged in short-selling, wbicb is usually the selling of shares one does not own in the hope of obtaining them later at a cheaper price to complete the deal at a profit. Anthorities banned short-selling since early September.

The hrokerage houses were cbarged yesterday on three counts of violating the Securities Industries Act. Industry sources said the issue was not the act of short-selling hut the fact that the short-sellers had failed to deliver the shares they sold within the required settlement period.

Credit Lyonnais, which has been charged on two of the three counts, said it had pleaded not guilty to the allegations and would vigorously contest them. It added in a statement that it had executed the two short-selling trades on behalf of two UK institutional fund managers.

CIMB Securities, the Malaysian brokerage involved, was charged on three counts hut also pleaded not guilty. On two of these it said it was acting as an agent for the transactions ordered by Credit Lyonnais. It was not clear who was the client for the third deal.

Ng Wai Hong, CIMB's dealers representativa, was arrested but allowed out on payment of bail of M$250,000 (US$66,750). He also pleaded not guilty. The maximum penalty for offences under the Securities Industries Act is a fine of M$1m, 10 years' jail, or both.

The three deals in question appear to have been small by the standards of institutional business. Credit Lyonnais is alleged to have sold 141,000 shares in Proton, a Malaysian car company, and 76,000 shares in Public Finance, a finance company. The third deal involved 22,000 shares in Arab-Malaysian Corp, a conglomerate. The total transaction amount was M$1.4, according to Bernama, tha Malaysian national news agency.

Brokerage house executives said that failures to deliver shares within the settlement period was commonplace, especially for relatively minor trades such as the ones in question. This fact has caused nervousness among other Kuala Lumpur brokerages, some of which also fear prosecution.

Uncertainty clouds bond plan as Tokyo shapes finance package

By Gillian Tett and Michiyo Nakamoto in Tokyo

An influential committee in Japan's ruling Liberal Democratic party yesterday apparently backed proposals to issue some Y10,000bn ($77.2bn) worth of government bonds to support the country's financial system.

Okiharu Yasuoka, a LDP politiciao, said tbe LDP's financial stability panel came out in favour of the suggestion, after debating it yesterday.

However, the LDP panel failed to clarify precisely bow the money would be spent. And this uncertainty prompted tbe Nikkei 225 stock market index to fall 2.6 per cent to 16,050.15.

On Tuesday it had surged by 3.4 per cent, on hopes that Ryutaro Hashimoto, the prime minister, supported tbe concept and was finally taking etepe to tackle Japan's long-running economic problems.

The LDP is now hammering out the final details of any plans, and is expected to reveal tbese next Tuesday as part of a package of measures to stabilise the country's financial system and boost the economy.

Some observers had hoped that the Y10,000bn mlgbt fund tax cuts. However, this option appeared to be receding yesterday after Mr Hashimoto said the mooey would only support the financial eystem.

A more likely option is that the money will be used to expand the funds available to protect depositors if a bank or broker fails.

Another option under discussion would be the purchase of prefarred shares in some banks or brokers. This would require a larger injection of funds, but is still controversial, both within the LDP and among bureaucrats.

Whatever is decided on, the plan itself is being seen as a last-ditch gamble by the prime minister aimed at saving, if not the economy from collapse, at least his own head at a time wben public alarm about the state of the economy is threatening to undermine his government.

A survey published this week by the Mainichi Shimbun, a left-leaning national daily, gave Mr Hashimoto'a cabinet its lowest ever support rating of 29 per cent. The Nikkei, a more conservative business daily, reported the results of its poll whicb also ehowed a record-low support rate of 35 per cent.

The drop in public support was all the more devastating as it was also a critical indictment of recent legislation on administrative reform, which was a key banner of the Hashimoto government.

At the same time, Mr Hashimoto faces growing pressure from the world community to take swift and effective action to deal with the financial sector's problems.

Against this background it was essential that Mr Hashimoto take action of some kind to address the crisis in the financial aector. The idea to issue a new type of bond seemed to be it.

Furthermore, the idea not only promises to placate critics both at home and abroad, but since it came from a member of the LDP's old guard, Seiroku Kajiyama, it has the added benefit of silencing the most recalcitrant members of his government.

The problem is that the proposal could face formidable opposition.

The finance ministry and Bank of Japan are maintaining a pointedly stony silence about the issue – in part, for fear of being blamed if there is public protest over any use of public funds.

Hashimoto bows after a no-confidence vote yesterday *Reuters*

But given the impact that the recent collapse of leading financial institutions has had on public sentiment, another large failure in tha next few months could be devastating for the Hashimoto government.

"Hashimoto is an emperor with no clothes," says Takayoshi Miyagawa, president of the Centre for Political Public Relations, a think tank. "If even one large institution fails, the cabinet will have to resign."

For Mr Hashimoto, as he faces one of the most difficult periods at the helm of government, tbe lateat debate, regardless of the outcome, will at least buy him some mucb needed time.

NEWS DIGEST

Indian party in call for N-bomb

India's Hindu revivalist Bharatiya Janata Party, the country's biggest, said yesterday it would "favour" developing an Indian nuclear deterrent if it won power in elections due early next year – a step which would considerably toughen current nuclear policy. The party would also "gradually and cautiously" allow further opening of India's economy, but accelerate "internal liberalisation", Lal Krishna Advani (pictured left), a senior leader told a press conference.

Indicating that the nationalist party would campaign on traditional themes, Mr Advani said: "BJP favours that India develops a nuclear deterrent of its own."

Indian nuclear policy has traditionally been ambiguous, the country confirming it bas the capacity to develop nuclear weapons while denying any intention to do so. India tested a nuclear "device" in 1974 and bas developed and tested indigenously-built missiles.

Mr Advani suggested a BJP government would shift the emphasis of India's six-year-old economic reforms towards protection of domestic industry, while speeding up domestic deregulation. "On globalisation we want the country to move gradnally. . ." *Mark Nicholson, New Delhi*

PLEDGE TO US

Taiwan party offer over China

Taiwan's main opposition party, whicb fared well in recent local elections, has assured the US administration it will not trigger a crisis in relations with China if it comes to power at national level. The Democratic Progressive party, founded on a platform of independence from China, said current relations between Beijing and Taipei were unsatisfactory but the party would not try actively to alter it. It favoured initiatives by Taiwan to improve relations with China, particularly in the economic field.

"We are not happy with the status quo, but if it best serves peace and stability, we will not change it," said Hsu Hsinliang, party chairman. While the DPP spoke of internationalising the Taiwan issue, what it had in mind was "working with the world to maintain the status quo," he added. *Bruce Clark, Washington*

PRESIDENTIAL PHOTOGRAPH

Suharto seeks to reassure

Indonesian President Suharto posed for photographers at his residence yesterday for the first time since rumours surfaced that he was critically ill. Mr Suharto's aides called in photographers during a meeting with the planning minister. Mr Suharto was advised last week to rest for 10 days after he completed a strenuous foraign tour to Africa, North America and the Middle East.

Rumours surfaced earlier in the week that he was critically ill, driving the rupiah to a historic low of 4,600 against the dollar on Tuesday. Although senior officials and members of his family have denied Suharto was ill, the market has remained nervous. *Reuters, Jakarta*

هكذا تنمو الاعمال

Revenue alert adds to Channel rail woes

By Charis Gresser and Charles Batchelor

Senior executives at Eurostar, which runs high-speed trains through the Channel tunnel between England and France, warned their parent company London & Continental Railways more than a year ago that revenues would be insufficient for the company's needs.

Eurostar was handed over to LCR in March last year when it won the concession to build and operate the high-speed rail link between London and the Channel tunnel, to provide a revenue stream in the project's early stages.

But there has been growing concern in the City of London that disappointing passenger numbers are undermining the business.

The revelation that executives were concerned about passenger revenues as much as a year ago will compound LCR's difficulties as it attempts to woo the City. It hopes to raise £5.4bn ($8.9bn) in debt and equity next year.

The warning was given in a letter from Ian Brooks, then commercial director of Eurostar, to Adam Mills, LCR's chief executive, in October last year – just before last November's fire in the Channel tunnel.

Referring to forecasts made by Stephen Hewitt, the planning director, Mr Brooks wrote: "Steve's note, which I believe should be taken very seriously, clearly identifies that future revenues will be insufficient for our needs.

"We must develop new revenue streams... I believe we can raise prices, but again, the impact is severely diluted, if SNCF [the French railways] and SNCB [the Belgian railways] will not. So far, we are leading the way and they are resisting."

LCR said yesterday that it had carried out a thorough reappraisal of its forecasts this year and had taken steps to increase revenues by boosting retailing at its terminals and launching special trains to ski resorts in the French Alps.

LCR has denied that it is under financial pressure. But it has begun talks with seven potential partners – with Railtrack being the most prominent – to share the costs of the project. It has also put back the date for its £1bn flotation from late 1997 to mid-1998.

The memo compared a new set of forecasts with a budget that the company had been using. The revised figures, which the memo said were still preliminary, forecast that 8.4m passengers would travel between London and Paris and Brussels in the year to March 1998, rising to 10.6m the following year.

In the first eight months of LCR's current financial year, however, Eurostar has carried only 4.3m passengers.

These figures, combined with a cautious view on price increases, led Mr Hewitt to conclude: "Over the next 2½ years to March 1999, the Eurostar (UK) business is likely to fall short of the revenue targets by around £60m."

The 68-mile high-speed link, which will cut 30 minutes off the three-hour London to Paris journey, is due to open in 2003. The French high-speed line was completed in 1994, before the tunnel opened. The Belgian high-speed link is due to open on Sunday.

Relief as historic Downing Street meeting ends on optimistic note

Sinn Féin told to end violence

By John Kampfner, Chief Political Correspondent

Tony Blair yesterday confronted Gerry Adams eyeball to eyeball with a demand that Sinn Féin and the IRA give up violence for good.

Mr Blair's official spokesman expressed relief that the one-hour session, over cups of tea after perfunctory handshakes, had been a "proper discussion with no chanting of slogans or mantras".

Mr Adams, heading a seven-strong delegation which included several convicted terrorists, said above the noise of unionist protesters: "We had a good meeting because I think we engaged. We faced up to the difficulties. In many ways the engagement could be described as a moment in history."

The richly symbolic first meeting for 76 years at Downing Street between a UK prime minister and Sinn Féin leader marked the coming of age of the political wing of the republican movement.

The venue of the meeting was particularly poignant. It was in the same cabinet room on the ground floor that John Major and the former cabinet dived for cover in 1991 after the IRA launched a mortar attack.

With Northern Ireland's parties involved in detailed discussion of the outlines of a constitutional deal, Mr Blair and Mr Adams confined themselves to broad strategy.

Mr Adams gave a further hint of accepting the principle of the consent of a majority in Ulster for any change to its sovereignty as long as safeguards for nationalists on both sides of the border are built in to a deal.

"The whole issue of consent is something which the British government have to seek to negotiate for, to seek to reach. But it has to be seen, clearly, as a two-way street," he said.

At the same time, he exploited a propaganda boost for hardliners by wishing "good luck" to Liam Averill, a convicted IRA killer who had earlier escaped from the high-security Maze prison.

Brendan Corr

Gerry Adams and the Sinn Féin delegation outside Number 10 Downing Street yesterday

As ministers mounted an urgent inquiry into the latest lapse in security, Mr Adams said: "While there are prisoners, there will be prisoners who try to escape. I tried it myself. Liam Averill succeeded, where I did not. Good luck to him."

Mo Mowlam, Northern Ireland secretary, told Mr Adams his remarks were "not helpful".

However, the mood among ministers is cautiously optimistic. Neither unionists nor nationalists, they believe, would take a decision lightly to give up the negotiations.

Mr Blair said Sinn Féin would be treated "properly and fairly" if it continued to play a constructive part.

He then told Mr Adams: "It is important that I can look you in the eye and hear you say that you remain committed to peaceful means." Mr Adams replied by restating his commitment to the principles of non-violence set out last year by former senator George Mitchell, the talks chairman.

"If we were to slip back, I believe we would slip back to something worse than what came before," Mr Blair said. "This is a choice of history: violence and despair, or peace and progress."

Mr Adams urged Mr Blair to persuade David Trimble, Ulster Unionist leader, to agree to a meeting with Sinn Féin.

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Matra to sue Home Office over radio contract

By Alan Cane

Matra Communications, part of the large French industrial group Lagardère, is suing the Home Office for "substantial" but undisclosed damages after being denied the opportunity to compete for the UK's largest public safety project.

It said yesterday it had issued a High Court writ and a statement of complaint alleging "serious breaches of European law" in the procurement process.

The Home Office confirmed that it was in dispute with the French company. It was confident it had acted strictly in accordance with the relevant regulations. It was now a matter for the courts to decide, the Home Office said.

The contract, estimated at some £1.5bn ($2.47bn) over 10 years, is to construct a nation-wide digital mobile radio system for the emergency services.

Due to go live in 2001, the system has a troubled history. It was delayed after all but one of the short-listed bidders withdrew from the design competition.

The sole remaining bidder, Quadrant, a consortium led by British Telecommunications and involving Motorola and TRW of the US and Nokia of Finland, was awarded the design study last month, but only after extensive safeguards to ensure value for money.

Matra argues that it was unfairly disqualified from the procurement process because it champions a wireless technology called Tetrapol. The Home Office, however, made it clear when it advertised the contract in January 1996 that it would only consider bids based on a competing technology called Tetra. That is recognised as the European standard for public service mobile radio, just as GSM is the European standard for digital mobile phones. It has approval from the European Telecommunications Standards Institute (Etsi).

Matra complains that "public contracting authorities have a duty to consider equivalent technologies capable of delivering similar standards of service on a fair and equal basis. Failure to do so is a breach of EU law."

It says Tetrapol has already been chosen by emergency services in 13 countries and that the costs of installing a Tetrapol system are significantly lower than those for Tetra.

Systems such as Tetra and Tetrapol are necessary because of the limitations of conventional mobile phone systems. They are able to transmit data as easily as voice conversations. Messages can be sent directly from handset to handset, a facility that could be invaluable to, say, firefighters at an emergency.

Lloyd's gets US cashflow boost

By Christopher Adams, Insurance Correspondent

US insurance regulators have lightened tough regulatory requirements on Lloyd's of London, giving the insurance market a much needed boost by easing cashflow pressures on underwriters.

Regulators from all US states, apart from Illinois and Kentucky which have different rules, have agreed that Lloyd's will be able to fund its surplus lines business at 50 per cent of gross liabilities from the start of next year.

Until now, Lloyd's has had to fund the business it writes at 100 per cent of liabilities, whereas other insurers can fund this business at 30 per cent.

The decision was taken by the National Association of Insurance Commissioners at a meeting in Seattle this week and broadly endorses a similar move by New York's insurance regulator last week.

Surplus lines is business which primary insurers in the US choose not to underwrite. It includes cover against medical malpractice and professional liability and accounts for a significant proportion of Lloyd's £10bn annual premium income.

"There was considerable sympathy that the current requirements were onerous going forward and that Lloyd's had made a number of positive steps since its recovery plan. There was a feeling they should get some relief," said the NAIC.

However, unlike New York, the other states stopped short of introducing the new measures retrospectively for the last three years of underwriting, which Lloyd's has yet to close under its accounting system. This means it will have to maintain $1.2bn in funds it has lodged in the US to support that business.

The changes in funding will also require Lloyd's to increase the size of a joint asset trust fund from $100m to $200m, but this is to be phased in over three years.

Pfizer plans to create 1,000 jobs

By Michael Peel

Pfizer, the UK arm of the US pharmaceuticals company, yesterday called for greater government investment in science as it announced plans to build a £109m ($180m) research facility at its site in Sandwich, Kent, on the south coast of England.

The development will be part-funded by about £4.9m of government grants and is intended to generate 1,000 jobs. Most of the 650 research and support staff would come from other parts of the UK and from continental Europe.

Pfizer employs 3,400 people at the Sandwich centre, which develops and manufactures medicines to treat a wide range of human and animal diseases. The company has invested £480m in the facility since 1990.

Margaret Beckett, trade and industry secretary, welcomed the company's decision to invest further as evidence of its confidence in the scientific expertise available in the UK.

"The company knows well it can find here the highly qualified and enthusiastic people it needs," she said.

But Dr Simon Campbell, senior vice-president for Pfizer UK, said the government needed to better gear its science policy to industries that depended on innovation. "Science is underfunded in the UK and equipment and infrastructure is seriously underfunded," he said.

"We need to make a strategic decision on whether we focus on centres of excellence [to train scientists] or whether we continue to look for numbers rather than quality."

Dr Campbell said 70 per cent of the new research and support staff at Sandwich would have a degree or doctorate. Although UK nationals would predominate initially, the company would look to recruit increasingly from other parts of Europe.

The other 350 jobs would mainly be filled by local people and would cover areas such as transport, engineering and catering. Sandwich is just outside the district of Thanet, which has an unemployment rate of 8.2 per cent.

Dr Campbell said the availability of government money had played a significant part in the company's decision to invest in Kent rather than in its US research and development facilities.

The Department of Trade and Industry is providing a grant of £3m. English Partnerships, the largely government-funded development agency, has spent £2.5m on preparing the new site for construction work.

Blair avoids row with his MPs

By Liam Halligan and Andrew Bolger

Tony Blair, the prime minister, yesterday avoided a full-scale confrontation with backbench MPs of his own ruling Labour party who refused to vote for cuts to lone parent benefits.

However, there were warnings of further dissent if disability benefits are cut.

The prime minister's office insisted that in spite of Wednesday night's revolt, in which 47 Labour MPs voted against the government, it would press on with its plans to abolish single parents' benefit premiums.

"The government was elected on a clear platform to stay within tough spending limits, to reform the welfare state and get people off benefits and into work," said the prime minister's official spokesman. "We intend to deliver what was in the manifesto and not rewrite it the moment we get into power."

But it became clear yesterday that most of the rebels, including 14 Labour MPs who did not vote in spite of being at Westminster, would get away with a verbal "yellow card" warning.

Labour's business managers, keen not to antagonise the party's hard left, have singled out only three backbench MPs for more severe disciplinary action – John Marek, Bob Wareing and Brian Sedgemore.

Senior party figures yesterday warned Harriet Harman, social security secretary, that Wednesday's revolt would "look tame in comparison" to internal party protests if the government cut benefits to the disabled.

Lord (Jack) Ashley, former MP and chairman of the cross-party parliamentary disability group, said many of Britain's 6.5m disabled people had voted Labour. "Disabled people are very, very upset about this – I have never known such anxiety, anger and fear," he said. The government has come under pressure to quash rumours that up to £2bn ($3.3bn) is to be cut from disability benefits.

The Equal Opportunities Commission yesterday urged the government to monitor carefully its withdrawal of the benefit premiums from single parents – which will reduce their incomes by up to £11 per week.

The government-funded body, which supported the introduction of the premium in 1988, admitted it was difficult to assess the results of withdrawing the premium for new claimants, given the additional childcare being proposed by the government.

Public approach to science goes under the microscope

Survey shows that people know more than they used to and have significant confidence in industry scientists

■ *Does the earth go round the sun or the sun go round the earth?*

■ *Antibiotics kill viruses. True or false?*

■ *In whom would you have most confidence to make a statement about BSE – a scientist in a government department, a consumer organisation, a university or the meat industry?*

By asking a random sample of 2,500 adults those questions and many more like them, researchers from Imperial College and the London School of Economics have produced a new snapshot of public understanding of science and attitudes to scientists. The results, released this week, show an encouraging increase in scientific knowledge compared with the last survey, in 1988.

Average scores on six factual questions have risen by 11 per cent. "Particularly impressive is the fact that elementary knowledge of DNA has increased from 43 per cent in 1988 to 81 per cent in 1996," says John Durant, co-author of the survey. "This suggests that over the past few years public awareness of [genetics] has increased dramatically."

The proportion who know that antibiotics kill bacteria, rather than viruses, is up from 29 per cent to 45 per cent. And there has been a small increase, from 63 per cent to 66 per cent, in those who know that the earth goes round the sun, not vice versa.

However, in 1988 the 25-34 age group did best on the questions, while in 1996 those aged between 35 and 44 performed best. The survey authors say this "cohort effect" suggests that people who went to school during the 1960s know relatively more science.

General attitudes to and interest in science have changed little in eight years. Most people support science and 90 per cent express interest in the subject.

The survey, funded by the Nuffield Foundation and the government's Office of Science and Technology, was discussed at a meeting of leading scientists at the Royal Society this week. Reactions were mixed.

Heather Couper, the television astronomer, said: "I'm very disappointed that after all our efforts to increase public understanding of science and to bring more science to the media over the past 10 years, there has not been a greater improvement."

Others were encouraged by the increase. Martin Bauer, of the London School of Economics and survey co-author, said the results showed no evidence for the much discussed growth in pseudo-science. "The hard core of astrology believers is still only 3-5 per cent," he said.

The survey also asked new questions to assess public confidence in scientists working in different sectors.

The results will come as a pleasant surprise to industrial scientists, who often feel unloved by the public. On BSE, or "mad cow disease", 41 per cent have most confidence in academics, 27 per cent in meat industry scientists, 18 per cent in scientists working for consumer organisations and 4 per cent in government scientists.

On nuclear safety, 23 per cent put most confidence in nuclear industry scientists, 21 per cent in scientists working for environmental groups and 5 per cent in government scientists.

Industry scientists emerged creditably, said Mr Durant. "But if I was in government, I would be seriously troubled by these results," he said.

Paradoxically, according to the survey, you the reader will not trust this account of its findings – because the public expresses even less confidence in journalists writing in newspapers than in government scientists.

Clive Cookson

UK NEWS DIGEST

Hopes for lifting of EU beef ban

UK farmers' leaders were yesterday hoping for a lifting of the European Union's ban on UK beef exports, perhaps by Easter next year, after a meeting with Emma Bonino, the EU commissioner responsible for food safety.

The farmers were also given assurances that the EU would make an assessment of the risks and costs involved before introducing a ban on specified risk materials from cattle, sheep and goats. An EU scientific veterinary committee recommended this week that meat on the bone from sheep more than a year old should not be eaten.

Ms Bonino told the farmers that discussion of the UK's proposed export certified herd scheme would take place at a Commissioners' meeting on December 16, rather than in mid-January. Under the scheme, animals from herds certified to be free of BSE or "mad cow" disease could be exported. *Maggie Urry; George Parker, London*

■ COAL MINING

Generators deny deal over RJB

The government's intervention in the coal crisis ran into trouble yesterday with big generators denying they had struck a firm deal to help RJB Mining, the UK's biggest coal miner.

The government also faced a challenge from Midlands Mining, a private Midlands coal miner, which is today writing to Tony Blair, the prime minister, complaining of discriminatory treatment which it says could damage its business. Ministers and government officials insisted that the big power companies had agreed in principle to extend coal contracts for three months beyond their expiry next March. However, National Power, the biggest buyer of British coal, said it had not agreed to buy any more coal from RJB beyond what it had already negotiated. *Simon Holberton; David Wighton, London*

■ CONSERVATIVES AND EUROPE

Leader hardens sceptical line

William Hague, leader of the main UK opposition Conservative party, is positioning his party as the leading European voice against further integration within Europe, ending the more conciliatory approach adopted by his party for almost 40 years. However, he wants to allay fears that he could one day call for the UK to leave the European Union.

"We are not going to be advocating the end of our relationship with the European Union," he said. Nevertheless, he made clear his determination to criticise further attempts to pool national sovereignty within the EU. Giving his first extensive interview on Europe, he told the Financial Times that there were "limits to the European Union in terms of democracy and accountability".

In a new year speech, he will set out what he sees as the limits of further integration. *Robert Peston, London*

■ ECONOMIC FORECAST

Jobless total 'set to rise in 1999'

Unemployment is set to rise by 250,000 during 1999 if economic activity slows as Gordon Brown, the chancellor of the exchequer, predicted in his recent Green Budget, according to unpublished Whitehall forecasts.

Officials at the Department for Education and Employment expect the jobless total to continue falling into next year, reflecting the current rapid rate of economic growth. But the jobless total is then expected to turn up, returning to approximately its current level by 2000. This is a much bleaker outlook than most independent economists forecast. On average they expect the number of people without work and claiming benefits to rise by 60,000 between 1999 and 2000, from 1.36m to 1.42m. Unemployment is now 1.46m. *Robert Chote, London*

■ INDUSTRIAL SURVEY

Boost for manufacturing exports

A small but surprising recovery in manufacturing exports has helped UK industry's order books move back into positive territory for the first time in more than two years. The Confederation of British Industry's latest survey of manufacturers, published yesterday, showed 23 per cent of companies said the volume of orders currently on their books were "above normal". In comparison, 21 per cent said their total orders were "below normal". The CBI, the principal employers' organisation, said its December survey showed a positive balance of higher order books for the first time since August 1995. In its surveys in November and October a greater number of companies reported falling levels of orders than those that reported rising orders. *Richard Adams, London*

■ EUROPEAN UNION LEGISLATION

Working hours move delayed

Legislation to implement European Union rules on maximum working hours has been delayed until next month amid signs that the UK government is keen to allay employers' fears.

The prime minister's office, which has been closely involved in drawing up the working time proposals with the Department of Trade and Industry, accepts business concern about the impact the directive could have on competitiveness and job flexibility. As a result, the legislation is expected to reflect the lobbying efforts of the Confederation of British Industry, the principal employers' organisation, and the Engineering Employers Federation. The Trades Union Congress, the association of trade unions, has expressed opposition to proposed changes to hours restrictions. *Robert Taylor, London*

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MANAGEMENT

Virginia Matthews on the first universal standard designed to help establish companies' record on human rights

Framework for ethical sourcing

Avon Cosmetics, Toys R Us and the world's biggest mail order company, Otto-Versand, have this month taken an important step towards securing basic human rights for factory workers both in the developed and developing worlds.

The three companies, which have operations around the globe, are the first signatories to Social Accountability 8000, the first-ever universal standard for ethical sourcing.

SA8000 is an initiative of the Council On Economic Priorities, a New York research organisation which analyses businesses' social and environmental record.

Its scheme provides what other initiatives have lacked: a common framework for ethical sourcing for companies of any size and any type, anywhere in the world.

SA8000 sets out specific provisions on issues such as trade union rights, the use of child labour, working hours, health and safety at work, and fair pay and conditions, as well as the management systems necessary to deliver them.

Each plant or factory applying for certification will be given independent verification by an outside auditor such as SGS-ICS, the world's largest certification company.

While Sainsbury's, the UK's second largest supermarket chain, has already given its tacit support to the scheme –

The founding signatories plan to trumpet the initiative in their marketing

described by Dr Geoff Spriegel, the company's technical director, as "a move in the right direction that helps put these issues on the global agenda" – the company is still deciding whether to apply for certification.

The Council on Economic Priorities believes the first wave of UK companies prepared to put themselves or their suppliers to the ethical test will declare themselves next year, with a clothing firm or a supermarket likely to lead the way.

The three founding signatories plan to trumpet their initiative in forthcoming marketing campaigns.

Deborah Leipziger, the director of the Council, says "the race to be first in this field is hotting up both in Europe and in the US".

"Growing numbers of consumers across the world are demanding assurance thet the companies they spend their money with can guarantee that the goods on sale in stores are produced under humane working conditions.

"The value to the bottom line in taking a lead on the issue of ethical sourcing is incalculable."

Toys R Us and Avon, both US-based, are implementing the SA8000 standard in different ways. The toy company has asked each of its 5,000 suppliers to get their plants certified as soon as possible; while the cosmetics giant is currently certifying its 19 factories before moving on to supplier premises and outworkers.

Tom DeLuca, vice president for imports at Toys R Us, says the company will delist suppliers who fail to achieve certification.

Toys R Us plans to delist suppliers that fail to win certification

Pilot audits under the SA8000 scheme have already been conducted in factories throughout Mexico and Honduras, and in Pennsylvania and New York City in the US.

Conditions vary enormously, says Ms Leipziger, but the problems and abuses of human rights have by no means been found to be restricted to the poorer south.

Mexico in particular has a problem with compulsory pregnancy testing of staff, a technique routinely used by employers in response to Mexico's unusually generous maternity benefits system.

While snch devices are unlikely to be found in New York City, factories there and in Pennsylvania have been found to be "in violation of basic pay and conditions arrangements", says Ms Leipziger.

She notes that while Mexican factory operators are "very keen" to conform to SA8000, firms in New York City take a "more relaxed view of their own breaches of the law".

"The factories we visited in Mexico tended to be very open about ehuses, actually logging the incidents of pregnancy-testing despite the fact that it is against Mexican law.

"Managers in the north tended be more secretive about violations."

Ultimately, companies deciding whether to go for compliance with SA8000 will want to consider whether it is financially worthwhile. Besides improving a company's reputation, are there real economic advantages to be had by subscribing to such a scheme?

According to both Avon and Otto-Versand, there are. Avon's director of external development, Fitzroy Hilaire, believes that "cheap labour becomes very expensive in the long-run". Otto-Versand says the "costs of not complying with ethical standards will cost more in the long-run than will compliance".

There is also, for consumers, an intimate connection between the quality of goods in the shops and the conditions under which those goods are produced, Deborah Leipziger argues.

"In a recent case, health officials found batches of frozen strawberries contaminated with strains of hepatitis being consumed in school lunches in the US. The fact was that the South American workers who had packed these strawberries were so poorly-paid and, as a direct result, so ill, that their sickness was transferred to the goods they were handling.

"What our pilot audits have shown is that managements are often very hazy about how many suppliers they have and where exactly in the world they are. If this certification process allows managements to keep a closer eye on suppliers, and to restrict supplier lists to those who have proved themselves to be operating ethically, it will be no bad thing for business or consumers."

Why expatriates should be sent home

Joint ventures in China must hand leadership to local staff to succeed, finds **Andrew Bolger**

The long-term profitability of foreign-run joint ventures in China largely depends on the foreign partner's ability to "localise" the project as rapidly as possible – without relying on expensive expatriate managers.

That is the main conclusion of a study into how 28 leading multinationals – such as Ford, International Business Machines and Bass – have tackled the problems of doing business in China.

"Localising the enterprise involves passing the baton of leadership from high-cost expatriates to local staff trained in the foreign partner's business methods and culture," says Syd Bone of Towers Perrin, the management consultancy that co-authored the report with the National Foreign Trade Council, the US business association.

Their survey of 70 executives finds multinationals working in China face challenges they do not encounter in other markets because of the Chinese government's all-pervasive role in the economy. Relationships with officials have to be carefully nurtured before any action can be taken. Communication, transport and other infrastructure systems are often poor to non-existent.

Mr Bone says: "To meet these challenges initially, joint ventures in China typically rely on expatriate leadership and expertise, creating what we call the 'expatriate Catch 22'.

"The average non-Chinese general manager costs between $400,000 (£239,520) and $500,000 annually in China. What we've found is that joint ventures can't afford expatriate managers, but also typically can't work without them. The goal is to equip, train and install local Chinese in key management positions sooner rather than later."

However, almost ell of the executives interviewed caution strongly against rushing into ventures. Instead, they emphasise the importance of negotiating carefully with Chinese partners and taking time to reach clear agreement on mutual objectives, as well as how the venture will be organised and operated.

The report says: "The joint venture should specify that the foreign partner retains full control over staffing levels and decisions – including the right to screen carefully any employees assigned to the venture by the Chinese partner. Participants agreed that it is vital to resist the Chinese tendency to overstaff the operation right from the outset, as the Chinese tradition of lifetime employment makes it difficult to 'rightsize' the venture once workers are in place."

One human resources director says his company is negotiating a clean-slate approach to restarting its failed joint venture. "This time round, we're insisting on a brand new facility, new employee housing and zero initial staffing. Based on our experience, we strongly recommend a green-field start-up. Otherwise, there's just too much baggage from the state-owned partner."

Housing assistance is an integral part of the employee's reward package, ranging from allowances to company-owned dormitories and apartments. Some executives find company-owned housing a powerful recruiting tool. Others view housing as a distraction and point to the difficulties involved – such as evicting former employees.

Patience, and a commitment to invest significant resources in China, are essential for success, the study concludes.

"Clearly, China is not fertile territory for companies looking to turn a fast profit on modest investment. Financial success for foreign-owned ventures comes only after a fairly extended learning curve."

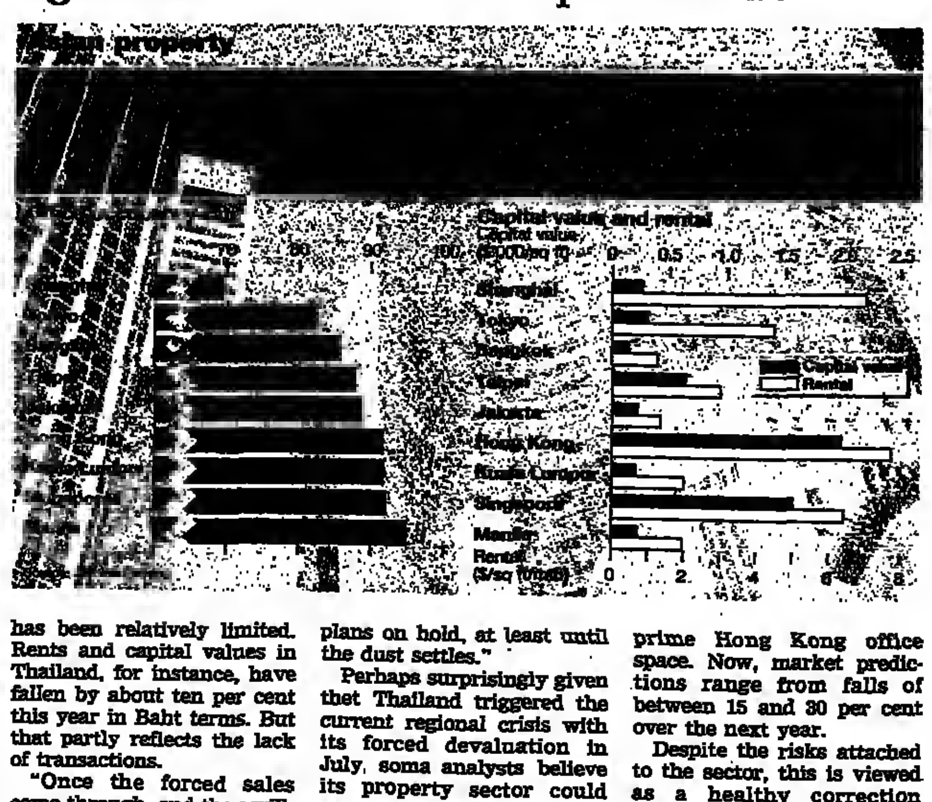
Doing Business in China. Available free from Towers Perrin in New York. Fax: 001 914 745 4199

THE PROPERTY MARKET

Fragile foundations

John Ridding wonders how far Asian prices will fall

When Malaysia's sky-bound Petronas Towers were topped out earlier this year, attention in Asia's real estata market centred on the soaring beights and prices of the region's property projects.



Now the big questions are very different. Investors and economists are focused on the fragility of the region's property foundations, wondering how far and for bow long prices will fall.

The answers matter beyond the ranks of prospective tenants and developers. As one of the pillars of regional economies, and one of the main destinations of bank credit, the fate of real estate will help determine the severity of Asia's economic downturn.

While there are significant variations across the region, there is also a common theme. "It is safe to say that the state of the property markets in Asia is plain and simply bad, if not downright horrific," says John So, regional property analyst at Jardine Fleming, the investment bank.

It is similarly safe to assume that in many markets the situation will get worse before it gets better. "Bangkok, Jakarta and Kuala Lumpur are similar in that they bave enormous capacity coming on at a time of economic downturn," says Tim Bellman, director of research at Jones Lang Wootton Asia Pacific.

Over the next three and a half years, the agency says, the supply of office property in Kuala Lumpur, Jakarta and Bangkok is set to rise by 32 per cent, 48 per cent and 71 per cent respectively.

The length and depth of these downturns depends on wbetber devaluation and export-driven growth can limit the economic reverse.

"That makes it hard to predict," says a senior executive at one property consultancy. "But the last time we had this combination of factors, in Japan, the downturn lasted seven years."

So far, say industry experts, the impact on prices has been relatively limited. Rents and capital values in Thailand, for instance, have fallen by about ten per cent this year in Baht terms. But that partly reflects the lack of transactions.

"Once the forced sales come through, and they will, there will be a huge impact on prices," says one Hong Kong developer.

As for demand, the prospect of cheap office space for multinationals is outweighed at present by worries concerning broader economic prospects.

"It may ba cheaper in some of these places," says the regional managing director of one consumer products company.

"But a lot of companies will be putting expansion plans on hold, at least until the dust settles."

> 'It is safe to say that the state of the property markets in Asia is plain and simply bad, if not downright horrific' – Jardine Fleming

Perhaps surprisingly given thet Thailand triggered the current regional crisis with its forced devaluation in July, soma analysts believe its property sector could recover more quickly than elsewhere in the region.

Indonesia, however, which has been lauded this week for its commitment to economic reforms, is tipped for trouble.

Jardine Fleming sees Indonesia as the likely winner of the unwelcome "King of the Bubble" award. "With sector gearing of over 100 per cent it is hard to see what could save Indonesia from taking the crown," a report by the investment bank concludes.

Elsewhere, the downturn is seen as cyclical rather than structural. Singapore was already on the downward phase of tbe cycle when the regional crisis hit, but most believe the damage will be relatively limited.

"We think the market will go down for a few months more, but it will emerge sooner than others," says Mr Bellman. "We see it turning the corner in the middle of next year, due to a relatively tight supply of office space."

Even before the rise in interest rates to defend its currency, a sharp expansion of supply prompted predictions of weaker prices for prime Hong Kong office space. Now, market predictions range from falls of between 15 and 30 per cent over the next year.

Despite the risks attached to the sector, this is viewed as a healthy correction rather than a crash. This month's announcement by Standard Chartered Bank that it would pay HK$1.3bn for new offices was one sign that activity has not been frozen by financial turmoil.

"It was positive for tha office market," said Michael Leary, head of property research at Lehman Brothars. "The price [HK$4,350 per square foot] was slightly higher than we expected."

The territory's developers also appear to be in a relatively robust position. "While the property companies may talk up the market, they are actually financially prepared for a downturn," says Paul Coughlin, managing director of Standard & Poor's in Hong Kong.

Mr Coughlin argues that the developers, like the rest of the territory's corporate sector, are much less leveraged and hence less exposed than alsewhere in the region.

Many agree. But amid the shaking foundations of Asian property, that is little cause for celebration.

ARTS

In search of the key to composing

Andrew Clark talks to Alexander Goehr

Don't expect a straightforward snswer from Alexander Goehr. Britain's leading academic-composer is too civilised, too cerebral to content himself with one side of whichever question yon lob at him. Famed for his talmudic mind, he'll argue both ways at once and in the middle as well, leaving you wondering at his reasoned ambivalence.

Maybe this explains why he has not captured the popular imagination to the extent of his Manchester School contemporaries, Harrison Birtwistle and Peter Maxwell Davies. The Goehr aesthetic displays none of the elemental force of the former, nor the hyperactive energy and proselytising zeal of the latter. He is no more capable of an unequivocal statement than he is of hlowing his own trumpet. Anyone listening to the *Little Symphony* (1963), the oratorio *The Death of Moses* (1992) or the opera *Arianna* (1995) will realise that this is music of synthesis – tasteful, technically adroit, backward-looking in inspiration. It may not sock you between the eyes, but it is never less than beautifully ordered and crafted.

So it comes as a surprise to find the title *Idées fixes* on his latest score. In Goehr's context, it could mean "sticking to the point" – not something for which he is renowned. Indeed, one of the criticisms of his *oeuvre* is that he has too often risked burying the point under a welter of tangential thought and revision.

Explaining the background to *Idées fixes*, Goehr refers to a remark by Brahms "that modern composers don't stick to the theme – they wander off. I grew up under the Schoenbergian ethos, believing one had constantly to vary and change everything. I'm fairly fertile – I could give you five notes anytime – and it's sometimes easy to forget the original idea if you're always trying to correct and improve it. I can think of several pieces I messed up because I passed the point of their optimum. That's why, for some years now, I've tried to say to myself: you can vary it, because it's got to be interesting, but yon *must* stick to the point."

Idées fixes, a sonata for 13 instrumentalists, receives its first performance tomorrow at the Queen Elizabeth Hall as part of the London Sinfonietta's 30th anniversary celebrations. It coincides with the pnblication of an autobiographical book of essays *(Finding the Key*: Faber £11.99, 321 pages), describing Goehr's progress away from the 1950s avant-garde, his thoughts on Schoenberg and Boulez, and the influence of his father, the German conductor-composer Walter Goehr. The book reads like a series of friendly lectures, as intellectually stimulating as they are warm and self-effacing. It takes its title from the final essay, in which Goehr, now 65, sums up his musical heritage and beliefs.

Goehr's point, ironically, is that there *is* no key. "Most people of my age – the people I knew anyway – grew up believing that sooner or later some form of Marxist socialism would prevail in the world, and it was only a matter of how and when. That is what 'finding the key' means: if you get your ideas right, you'll end up writing great music or creating a superior musical organisation. Ultimately, of course, it all falls down, because the key doesn't exist. I wasted a great deal of time trying to find it. Boulez, Schoenberg and others who influenced me led me to believe that if yon picked up the right ideas, you would go ahead and be rewarded. I know now that this is not the case. It leaves out so many other factors."

It is precisely these "other factors" which have informed his thinking since the Boulez-inspired experiments of his youth. Goehr recalls how people used to comment on the aggressive, didactic qualities of his early work – qualities which fell away through the experience of life. He now gets the word "traditional" thrown at him, not just because his idiom seems increasingly conservative, but because of his love of academic forms, from the sonata to pre-classical modal procedures.

Alexander Goehr: 'What interests me now is the sensuality of the material, no matter what form it takes'

Goehr offers a characteristically well-reasoned defence. "After a while, I began to realise it was not my lot to devise schemes which would solve the problems of the world, because I didn't have the answers. And it was the same with music. I no longer want to use music to express this or that, in order to make people believe I am right. What interests me now is the sensuality of the material, no matter what form it takes. Real composition is not about ornamenting an idea yon want to express; it's letting the musical material create its own continuations and fulfilment, so that it blossoms of its own accord."

Arguments like this explain why Goehr is better suited to academic life than to the pressures of the journeyman-composer. Professor of music at Cambridge since 1975, he has seen a succession of promising young composers, from Robert Saxton to Thomas Adès, flourish under his tutelage. His purpose, he says, is to show them the tools which can create expressive freedom – "to make them more like themselves, because what they often believe to be frighteningly original is generally an assortment of received ideas. All ideas, if they are any good, have been thought of before. What is original is what you do with them."

Goehr's enlightened approach is in part a reaction to the devastating putdowns he received at the hands of his father, a Schoenberg pupil who did everything be could to ridicule his son's efforts. Walter Goehr – who died in 1960 – haunts the pages of *Finding the Key*, as if his son is still trying to win grudging approval. "If I wanted to present myself as a significant artiste or as someone with a deep spiritual message, I would hear my father's laughter over my shoulder, saying 'You pretentious fool!' Schoenberg was the rabbinical *pater familias*. What he said, no one dared contradict. In a sense I still feel part of that."

And family traditions die hard. Goehr says his elder daughter, a successful academic, complains that he rarely acknowledges her achievements. "So I tell her that in our family we don't say nice things to each other. Let other people say something nice – *we* say whet other people aren't going to say. But I'm learning my lesson. When my younger daughter first played the Elgar Cello Concerto, I told her she had played some nice notes. Now, when she comes to hear a piece of mine, she looks at me and says 'Mmm, some nice notes . . .'"

South Bank's future in jeopardy

The chief executive of London's South Bank Centre, Nicholas Snowman, and his trustees, must feel like mice being toyed with hy two large, sadistic cats in the form of the Arts Council and the department of culture, media and sport.

Two years ago the South Bank was one of the first applicants for funding from the lottery. It wanted to transform what is one of London's major eyesores, but also its main cultural centre. The board envisaged a development, costed at around £150m, in which the existing Royal Festival Hall, Elizabeth Hall, Hayward Gallery would be refurbished, enlivened with retail outlets, and the whole complex covered by an opaque "wave", a canopy designed hy Richard Rogers.

For two years the Arts Council has prevaricated, but on Wednesday it finally reached a decision on the Sonth Bank. It "believes very strongly that the project is botb essential and visionary". It agreed that it wonld need between £70m and £75m of lottery funds to fulfil its potential. Bnt it then decided that it did not have the money available. The raids on its lottery funds hy the government for homework clnbs and such has restricted it to jnst £200m to spend on large projects over the next eight years.

The council then handed the whole mess over to culture secretary Chris Smith, who promptly passed it back, asking the Arts Council to "pnt forward written proposals on whether and how this vital scheme can he enabled to proceed." So there is to be yet another delay.

Nicholas Snowman pnt the best possihle gloss on yesterday's news. "There is obviously great enthusiasm for the project and a wish to see it happen". Bnt every month of delay adds £600,000 to the cost, and other paymasters – the Heritage Lottery Fund which has pledged £20m towards refurbishing the Festival Hall; Paul Hamlyn, who has given a repnted £16m; and the retail development, valued at £30m – cannot remain on hold for ever. Snowman wants a speedy rebuilding, which is less costly. He wants to re-open the South Bank in March 2001.

If the Arts Council wanted the scheme to go ahead it could re-arrange its cash flow, perhaps with the agreement of Chris Smith. Alternatively, tbe government could advance some money. Only Smith cam save the project. Perhaps be has told the council to find the cash. It still receives over £200m a year from the lottery. But if Smith is running scared of the anti-culture tahloids end an anti-London government, Snowman faces more dashed expectations.

Antony Thorncroft

Theatre/Robert Hanks

Lost treasure

When Long John Silver and his fellow pirates finally reach the spot marked X on Captain Flint's map, instead of treasure all they find is a couple of guineas. Watching Neil Bartlett's deeply disappointing staging of Robert Louis Stevenson's great adventure yarn, you know just how they feel.

Bartlett's apparent aim is to strip away some of our preconceptions ahout *Treasure Island*, and get to the real meat of the story. It is a story ahout seafaring and money – so the cast break into sbanties at the drop of a bat, and when the treasure chests are finally opened, a shower of gold coins and banknotes covers the stage. And Long John Silver is not an obvious rogue in the tradition of Robert Newton, hut a handsome, well-groomed man.

Up to a point, this purist ambition is laudable; for axample, Tom Georgeson's polished Silver hints at a dimension of wickedness that the Newtonian Silver misses (it is unfortunate he is vocally rather underpowered). But Stevenson's novel is a thoroughly self-conscious and self-contained fantasy, in wbich the pirates are not supposed to be realistic, the treasure is only a McGuffin, an excuse for the adventure.

Bartlett is trying to bring out an underlying reality that simply is not there; in doing so, he ends up strangling the narrative and missing out on the clean, manly emotions that are, after all, the source of the hook's enduring appeal.

This is not to say that it is a bad play simply because it does not represent the original novel faithfully. It is bad because it is badly thought out. As adaptor, Bartlett has made the narrative exposition clumsy and often hard to follow, even for someone familiar with the story, with key plot points fudged or omitted altogether. As director, he has failed to establish a dominant tone, and acting styles veer wildly between the straight (Edward Kingham's assured Dr Livesey), the hroadly comic (Sarah Brignall's wildly over the top Ben Gunn) and the camp (Andrew Fielding's hlack-clad, megalomaniac Blind Pew). The sea shanties serve to slow up the action rather than enhance the atmosphere, and are very raggedly sung.

While Bartlett has edopted a dellberately thaatrical, anti-realistic style of direction, it is still annoying to see blatant anachronism creep in.

Although conventional flintlock pistols are used in early scenes, Jim Hawkins later finds himself armed with a modern revolver, which apart from anything else makes nonsense of his desperate struggle to hlow his powder dry when he be is threatened by the wicked Israel Hands.

There are good things in here – the moment of swelling tension as the curtain falls on the first half (one of the only places where a shanty is well used). But all in all, it is barely seaworthy.

Lyric, Hammersmith, London W6 (0181 741 2311).

Tom Georgeson's polished Long John Silver Alastair Muir

Music in Boston

Hybrid sound of 'The Red Violin'

The work of John Corigliano (b.1938) is not yet familiar in Europe outside new music circles, but in his native US he is that peculiar hybrid – the popular composer of classical music. There are already several recordings of his First Symphony (1990), and his opera *The Ghosts of Versailles* (1991) has scored a success at the Met and elsewhere. His concertos and solo works all have their champions. Corigliano's music has a deep-seated colour and energy, and is easy to assimilate without sounding facile. Tha real secret of his *success, however, is that* he composes music which musicians enjoy playing.

That explains his involvement in François Gerard's forthcoming film *The Red Violin*, which traces the fictional history of a violin through three centuries. Corigliano is writing the as-yet-unfinished soundtrack and Joshua Bell will play it. American concert audiences have had a sneak preview over the past fortnight, thanks to Corigliano's decision to turn the main solo theme into a Chaconne for violin and orchestra. Bell gave the premiere in San Francisco, and I heard him play it a few days later with Seiji Ozawa and the Boston Symphony Orchestra.

The piece aspires to the genre of virtuoso rhapsody exemplified hy Saint-Saëns in his *Introduction and Rondo capriccioso* and Ravel in *Tzigane*. The theme itself is short, sweet and sentimental; the soloist muses on it in a series of poetic and introspective variations, broken up by quiet gasps and brassy hlasts in the orchestra. There are echoes of Bach in the copious double-stopping, of Prokofiev and Barber in the tonally astringent harmony, and of Walton in the virtuoso passage-work.

As far as it goes, *The Red Violin* works well enough, but it has a half-made atmosphere. The theme could have responded to much more ambitious treatment than he allows, and the spitfire conclusion is far too abrupt. One wonders why Corigliano needed such a large orchestra for such a small-scale piece, and how much further he might have gone if be had devoted more time to it. With a less eloquent soloist than Bell, it might not sound as engaging as it did here.

This was my first visit to Symphony Hall in Boston, and I was completely taken in by its acoustic, its architectural simplicity and its aura of musical history. Ozawa preceded *The Red Violin* with Mahler's arrangement of Schubert's *Death and the Maiden* quartet – a gift for the BSO's silvery strings – and ended the concert with Ravel's *Valses nobles et sentimentales* and *La Valse*, played without a break. In the right repertoire (an important *caveat*), Ozawa can still pack a powerful punch, despite the ups and downs of 25 years in Boston.

Offstage, however, the *strains are showing*. He is currently involved in a damaging row over the future of the Tanglewood Music Center, several of whose senior figures have resigned in protest at his decision to restructure tha teaching programme. The dispute has provided useful ammunition for Ozawa's detractors, who feel he has stayed in Boston too long. The BSO may well be under-motivated, but Ozawa's power-base among the people who count remains secure. Reports of an imminent conductor-vacancy in Boston are premature.

A.C.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

EXHIBITIONS
Stedelijk Museum
Tal: 31-20-5732911
www.stedelijk.nl
Gabriel Orozco: Recordings and Drawings. Display of recent video works by the Mexican artist, filmed in New York and Amsterdam; to Dec 14

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Dialogues des Carmélites: by Poulenc. New production conducted by Yves Abel in a staging by Robert Carsen. Cast includes Joan Rodgers and Sheri Greenawald; Dec 13

■ BERLIN

CONCERTS
Deutsche Oper
Tel: 49-30-34384-01
Carmina Burana: by Orff. Conducted by Rafael Frühbeck de Burgos. With the Clemencic Consort conducted by René Clemencic; Dec 14

Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Claudo Abbado in works by Wagner, Schumann and Beethoven; Dec 12, 13, 14
● Berlin Philharmonic Orchestra: conducted by Daniel Barenboim in works by Mendelssohn, Rihm and Bruckner; Dec 19

DANCE
Deutsche Oper
Tel: 49-30-34384-01
● Deutsche Oper Ballet: premiere of Rosalinde, choreographed by Ronald Hynd to music by J. Strauss; Dec 17

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● Dia Zauberflöte: by Mozart. Staged by Günter Krämer, with sets and costumes by Andreas Reinhardt; Dec 12
● Hänsel und Gretel: by Humperdinck. Conducted by Olaf Henzold in a staging by Andreas Homoki; Dec 13

■ EDINBURGH

EXHIBITIONS
Scottish National Portrait Gallery
Tel: 44-131-624 6200
● Portraits of Excellence: a series of photographs of distinguished academics at the University of Edinburgh, commissioned according to an 18th century University tradition; to Feb 1

National Gallery of Scotland
Tel: 44-131-624 6200
● Discovering the Italian Baroque: The Denis Mahon Collection; to Feb 15

■ LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● London Symphony Orchestra: conducted by Tadaaki Otaka in works by Rachmaninov. With Leif Ove Andsnes in Piano Concerto No. 3; Dec 18
Royal Festival Hall
Tel: 44-171-9288800
● The Royal Opera: Elisabetta, by Donizetti. Concert performance, conducted by Carlo Rizzi; Dec 16

EXHIBITIONS
Barbican Centra
Tel: 44-171-638 8891
● Don McCullin – Sleeping With Ghosts: major retrospective of work by the photo-journalist which spans his career from 1959 to the present. Includes prints drawn from the major news stories he covered, and more recent still lifes and landscapes; to Dec 14
● James Ensor 1860-1949: more than 140 works by Belgium's foremost expressionist artist. Includes early studies of Ostend, portraits of the artist's family and friends, and the carnival paintings for which he is best known; to Dec 14

OPERA
Shaftesbury Theatre
Tel: 44-171-379 5399
The Royal Opera: Paul Bunyan, by Britten. New production staged by Francesca Zambello and conducted by Richard Hickox; Dec 13, 15

■ LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Ravel, Britten and Debussy. With soprano Sylvia McNair and the Los Angeles Master Chorale; Dec 13, 14
● Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Beethoven, John Williams and Nielsen. With violin soloist Alexander Treger; Dec 18

■ MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
Tosca: by Puccini. Concert performance given by the Hallé Orchestra and the European Orchestra in their first collaboration. Kent Nagano conducts; Dec 14

■ MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
Macbeth: by Verdi. Conducted by Riccardo Muti in a staging by Graham Vick, with designs by Maria Bjornson. Casts vary; look out for Maria Guleghina and Roberto Alagna; Dec 13

■ NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
New York Philharmonic: conducted by Kurt Masur in works by Serocki, Bacewicz, Rimsky/Korsakov and Dvorák. With trombone soloist Joseph Alessi; Avery Fisher Hall; Dec 12
● New York Philharmonic: conducted by Kurt Masur in works by Shostakovich and Prokofiev. With violin soloist Midori; Avery Fisher Hall; Dec 17, 18, 19

DANCE
New York City Ballet, New York State Theater
Tel: 1-212-870 5570
George Balanchine's The Nutcracker; Dec 12, 13, 14

■ PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Wolfgang Sawallisch in works by Beethoven. With piano soloist Rádu Lupu, soprano Luba Orgonasova, mezzo-soprano Marianne Roerholm, tenor Herbert Lippert, bass René Pape. Choir led by Arthur Oldham; Dec 13

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
Der Rosenkavalier: by Strauss. New production conducted by Edo de Waart in a staging by Herbert Wernicke. Cast includes Renée Flaming, Susan Graham and Barbara Bonney; Dec 14

Opéra National de Paris, Palais Garnier
Tel: 33-1-43439696
The Merry Widow: by Franz Lehár. Armin Jordan conducts a new production directed by Jorge Lavelli, with sets by Antonio Lagarto; Dec 14, 19

Théâtre des Champs Elysées
Tel: 33-1-49525050
● Fidelio: by Beethoven. Production staged by Patrice Caurier and Moshe Leiser, with the Orchestre des Champs-Elysées and the Choir of the Welsh National Opera. Conducted by Louis Langrée; Dec 12
● Leonore: by Beethoven. Production staged by Patrice Caurier and Moshe Leiser, and conducted by Louis Langrée. With the Orchestre des Champs-Elysées and the Choir of the WNO; Dec 13

■ TOKYO

EXHIBITIONS
Museum of Contemporary Art
Tel: 81-3-5245 4111
Loans from the Centre Georges Pompidou: selection of 127 works from the Musée National d'Art Moderne in Paris, on loan while it is refurbished. Artists represented include Matisse, Chagall, Picasso and Tinguely; to Dec 14

■ VIENNA

EXHIBITIONS
Kunsthistorisches Museum
Tel: 43-1-525240
Pieter Brueghel and Jan Brueghel: comprehensive survey of the art of the two sons of Pieter Brueghel the Elder. Includes around 130 paintings and 20 works on paper by Jan Brueghel the Elder (1568-1625) and his less celebrated brother Pieter Brueghel the Younger (1564-1637/8). The exhibition also includes a dozen important works by their father; to Apr 14

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
Monday to Friday, Central European Time:

● **NBC Europe**
10.00: *European Money Wheel*
Nonstop live coverage until 15.00 of European business and the financial markets.
17.30: *Financial Times Business Tonight*

● **CNBC**
08.30: *Squawk Box*
10.00: *European Money Wheel*
18.00: *Financial Times Business Tonight*

Philip Stephens

Doing it his way

The UK chancellor's plans for reforming the welfare state are more radical than most people realise

Tony Blair's government has been bruised. This week saw the first rebellion among its eupporters in Britain's House of Commons. The headlines declare the Blair boneymoon is finally over. There is a curious paradox in the cause of its consternation. On one level, a row over cuts in the state benefits paid to lone parents was simply careless. On another, it goes to the heart of Mr Blair's project to recast the role of the centre-left in British politics.

The confrontation was not planned. As so often, what started out as a skirmish was elevated into a great issue of principle. By accident rather than design, the treatment of unemployed single mothers became a trial of strength between Mr Blair's New Labour and what might loosely be called the Old Labour left.

The plan to reduce the benefits was inherited from John Major's Conservative administration. Gordon Brown, the chancellor, and Harriet Harman, the social security secretary, adopted it under the terms of an election commitment to bold to their predecessor's spending targets. Yet had they foreseen the political cost, I am sure that the saving – a mere £60m ($99m) next year from a hudget of nearly £360bn – would have been found elsewhere in Whitehall.

Mr Blair should be careful not to dismiss the significance of the revolt. Nearly 50 of his MPs were ready publicly to defy him. Much more importantly, I think, most of those who supported him did so with the beaviest of hearts.

Cutting the income of one of the poorest groups in society, said one of his cabinet colleagues, was a wholly unnecessary genuflection before tbe god of fiscal orthodoxy. A lot of goodwill bad been needlessly expended.

Yet this episode also tells us much more about the essential intent of the Blair administration than most have grasped. Welfare-to-work is more than a mantra. It is tha phrase that defines the core purpose of this government. And here, I am sure, Mr Brown is badly misunderstood.

True, he enjoys the "iron cbancellor" epithet bestowed on him by the financial markets. Yes, he is determined that this Labour government will not repeat the mistakes of the past by apending in baste and repeoting at leisure. Yet for all the rhetoric of tongh choices, Mr Brown is not to be counted among those wbo consider the best remedy for poverty is to pretend it does not exist.

Look first at the figures. In the short-to-medium-term he plans to spend more, not less, on welfare. Much more. Mr Brown's welfare-to-work programme will cost £1.2bn next year and more the next. That is on top of a real increase of 2 per cent in the £90bn state benefits budget.

Stand back from this week's sound and fury, however, and tbe key to Mr Brown's strategy reveale itself – the chancellor wants to spend this massive budget in an entirely different way. It is an ambition – and this is not well understood – whicb reacbes well beyond the technical detail of benefit payments into an attempt to redefine the old left/right divide in politics.

> Cutting the income of one of the poorest groups in society was a wholly unnecessary genuflection before the god of fiscal orthodoxy

Messrs Blair and Brown aim to solve the dilemma, which has hobbled governments of the centre-left throughout the postwar period: bow to raise the living standards and life chances of the least privileged in society without imposing an intolerable tax burden on the middle classes and the rich.

During the immediate postwar years, the answer seemed obvious enougb. Articulated in Britain by centre-left thinkers such as the late Anthony Crosland, it eaid rapid ecooomic growth would pay for the welfare state while demand management would underwrite full employment.

In the global marketplace of the 1990s, those national levers of economic powar are not available. Micro-economic reforms might over time push up the economy's sustainable growth rate, but we are talking bere of the difference between, say, 2¼ per cent and 2½ per cent.

For Mr Brown, that leaves only one route to a society offering greater equality of opportunity: employment. Work, in the chancellor'e philosophy, is the instrument which unshackles the poor, the precondition for tackling inequality. The state's role is to provide the requisite incentives and the education – lifelong learning, in Mr Brown's phrase.

Forty years ago, he once remarked in e lecture paying tribute to Crosland, old age and disability were the principal cause of poverty. Today the roots of disadvantage lie in unemployment and lack of skills. Work, be added, was "central not just to economic prosperity but to individual fulfilment".

The chancellor's intentions for reform are bolder than bas so far been imagined. Welfare-to-work programmes for the young unemployed are just a start. His Budget next spring will see a radical reshaping of the relationship between tax, national insurance and welfare benefits to reduce the disincentives for the unemployed to take low-paid jobs. The issue now, he has said, is not so much about what the state does for you but "about what the state can enable you to do for yourself".

Mr Brown'e plans to transform in-work state benefits into a US-style earned income tax credit are part of the same effort to recalibrate the welfare state and nudge the poorest into employment and training. The plan has its technical flaws, but it carries a powerful political message. Benefit handouts will be replaced by tax breaks. As such they will be far more acceptable to the middle classes.

In the mind of the Blair administration, tbis approach has application well beyond Britain's borders. It has learned lessons from the US, but the no-work, no-go inner cities which scar urban America auggest there is more to remodelling tbe welfare state than cutting entitlements. Next summer'a meeting in Britain of the group of eight leading nations has already been dnbbed the welfare-to-work summit.

For Mr Brown this is personal as well as political. The work ethic is central to his character, embedded in his Scottish presbyterianism. I happen to think it a noble ambition, even if the chancellor expects too much from it in redrawing tbe boundaries of politics.

But the Blair government must watch ont too for innocent bystanders. There are some – the infirm and lone parents with tiny children may be among them – who will never match up. No purpose is to be served by increasing their misery.

Labour pool runs dry

Accelerating US wage rises may start to feed US inflation, says Gerard Baker

For a man who has been out of work for nearly tbrea months, Dala Becker looks remarkably pleased with himself. As be peruses the job opportunities at his local employment office in Santa Ana, one of the thousands of auburbs of Los Angeles, be recounts bow his prospects have suddenly become a lot rosier.

"To start with, things didn't look too good," says the civil engineer who lost his job after 20 years experience this summer. "But I've recently started getting interviews for jobs I'm not even qualified for." Last month be was offered his first job but, confident he could find something better-paid, he turned it down.

Mr Becker's case is typical of a radical change in the US labour market in the past six months. Although the economy has been churning ont jobs in record numbers for most of the past five years, until earlier this year there had been little evidence of strong labour demand pushing up wages at anything other than a snail's pace.

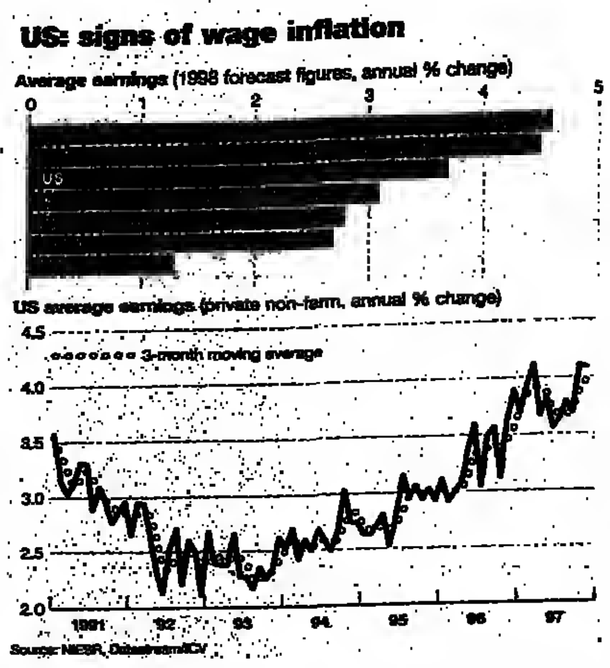
That has all changed. The US economy has added 1m joha in the past three months alone. Last month, the unemployment rate dropped to its lowest level in 24 years – 4.6 per cent of the workforce. The proportion of the population employed jumped to its highest level ever, at 64 per cent.

The combination has, at last, begun to feed through into moch faster wage growth. Average earnings are rising at 4.1 per cent a year, the fastest for seven years. In the past three months, wage increases bave accelerated by an annual rate of 5.3 per cent.

"Something has happened in the last six months," says Marcia Rosenbloom, a manager at the Santa Ana employment office. "Companies are really struggling to find workers in almost all fields."

What has happened is a combination of factors that poses the greatest threat to the benign scenario of non-inflationary growth the US has enjoyed for most of the 1990s.

"The labour market now looks about as tight as it can possibly get," says Allen Sinai, chief economist at Primark Decision Economics, a consultancy. "There is no doubt that wage inflation is accelerating . . . off this tight labour market and low unemployment rate."



The most significant change has been the depletion of new supplies of workers. For most of the 1990s, the solid pace of job growth in the US only slightly outstripped increase in tbe labour supply. As jobs became more plentiful, more potential workers entered the lebour force: immigrants, young people, and, significantly, large numbers of people from groups under-represented in labour force, such as bousewives, workers coming back from retirement, students and others who had long been discouraged from trying for a job.

Gradually, that pool of new labour supply has dried up. As demand has continued to rise, new workers could come from only one place, the unemployed. Having hovered around 5.5 per cent for most of the previous two years, unemployment has dropped by nearly a full percentage point.

Otber factors bave also changed the wages outlook. The long period of worker insecurity, driven by memories of the big restructuring by larger employers in the early 1990s, is fading. This seems to be the case, even in California, where the recession of the early 1990s was mucb longer and deeper than in the rest of the country and where memories of the pain are fresher.

"People are even starting to leave jobs voluntarily now. The fear bas gone," says Ms Rosenbloom. "Everybody realises they don't have to accept lower wages."

Although this might be the best news for workers for many years, it caries an ominous inflationary warning. Wage increases are far outstripping price rises. Prices are rising at only 2.5 per cent a year, wbicb means real wages, adjusted for inflation, are going up at their fastest rate this decade.

At current rates of growth in labour demand, wages are set to accelerate, forcing the Federal Reserve to raise interest rates. Alan Greenspan, the chairman of the Federal Reserve, has repeatedly warned that the central bank would bave to act if labour markets were too tight and producing the infiationary surge he has long feared.

But three factors could still stay the Fed's hand:

● Productivity. Part of the acceleration in wages has been validated by sharp improvements in productivity. After years of stagnation, the productivity of American workers – output per bour – has risen sharply this year and is up, according to official figures, at an annual rate of 4 per cent in the three months to September alone. But the reliability of tbese figures remains uncertain, and the big increase in the last quarters could be reversed in the current one, as employment has increased so sharply.

● Non-wage labour costs. Wages make up the bulk of employers' labour costs, but there are others, most notably health insurance and pension contributions. These edditional costs have been falling for most of the past few years. If they were to fall furtber, they might offset the effect of higher wages. The signs are, however, that the decline in health insurance costs in particular is now bottoming out, ensuring that wage increases will feed directly into companies' bottom lines.

● The Asian crisis. This remains the great unknown for the US and the world economy. If the effect of slumping exports and cheaper imports into the US is a sharp reduction in companies' demand for labour, tbe present tigbtness in labour markets may ease just in time to avert an inflationary surge in wages. It is this possibility, more than any other, that looks likely to keep the Fed from tightening policy when its open market committee meets next week, and perhaps tbrough tbe first tbree months of the new year too.

It is a big risk for Mr Greenspan and bis colleagues. If a slowdown does not materialise, US labour markets seem certain to get tighter than ever. The inflationary horse may well have bolted long before the Fed is ready or able to close the monetary policy door.

Inviting the eastern countries to join was the easy part, says Lionel Barber

Old club guards its exclusive tag

The ghosts of Metternich, Talleyrand, Churchill and Stalin are stalking this weekend's summit of European Union leaders in Luxembourg.

The two-day meeting stands comparison with the 1614-15 Congress of Vienna or the 1945 Yalta conference. Both redrew the map of Europe after cataclysmic wars; in its modest way, the Luxembourg summit also marks an historic step toward dealing with the legacy of war, the cold one.

EU leaders are expected to invite five central European countries – the Czech republic, Hungary, Poland, Eatonia and Slovenia – to open negotiations early next year to join the Union. Set alongside Nato's recent invitation to the Czechs, Hungarians and Poles, EU enlargement signals tbe beginning of the end of the division of the cootinent.

The new, wider Europe will eventually stretch from the Baltic trio in the north to Bulgaria and Cyprus in the south. This would give the EU direct access to the Black Sea and closer contacts with central Asia and the Caucasus. The visioo of an ever closer Union built 40 years ago around en intimate club of six is receding in favour of a looser confederation of nation states – with one big qualification.

The Luxembourg summit will underline that the Franco-German impetus towards deeper integration in western Europe remains alive through economic and monetary union. Emu is a prize within reach for as many as 11 of the present 15 members of the Union, including Italy. The planned launch of the euro on January 1 1999 is the other big summit theme.

The common challenge is to ensure that both processes remain inclusive. While both proclaim their aim to "unify" Europe, EU leaders are realising that both can also create new divisions. Not all countries are able to participate; some are unwilling. But "no-one wants to be left out in the cold", says an EU diplomat.

Heoce the warnings about a new Iron Curtain between the five countries on a fast-track for EU membership, and those left behind: Latvia, Lithuania, Bulgaria, Romania and Slovakia. Hence the dogged British campaign for a permanent seat in the euro-club comprised of Emu members. And the summit joker in the pack – Turkey – which continues to press its long-shot move for membership.

The man charged with keeping Europe one big bappy family is Jean-Claude Juncker, the Luxembourg prime minister. His youthful looks and deadpan humour hide a growing reputation as one of the EU's movers and shakers.

Twice in tbe past 12 months, Mr Juncker has helped to hroker compromises betweeo France and Germany over the terms of monetary union. This week, he has been working frantically to defuse a row between Britain and France over the euro-club, the group that will be set up to discuss employment, tax, excbange rate policy and other aspects of macro-economic policy.

The Labour governmeot regards the euro-club as dangerous and divisive because it risks uodermining tbe Ecofin council of EU finance ministers. Denmark, Greece, and Sweden, nooe of wbom are ready to join Emu on January 1 1999, agree. So does the Irish republic, fearing its neutral status and links with the UK could lead to exclusioo in other areas of EU co-operation.

The Germans have offered the British observer status in the euro-club. The French, who want to build up the new forum as a political counterweight to the future independent European Central Bank in Frankfurt, have offered a compromise. They would provide information on Emu-related issues such as the ECB's interest rate policy, while inviting non-Emu members to debate general topics such as employment.

Labour considers that its declaration of intent to join Emu after the next election, due by 2002, abould be enough to prise open the club doors. The British have turned the euro-forum into a matter of principle, arguing that countries which are "pre-ins" sbould not face discrimination. The best bopes of a deal lie in a Luxembourg draft embpasising Ecofin's primary role; otherwise the French and Germans will work out between them how the euro-club should operate.

Jmcker: growing repntation as a mover and shaker

Similar arguments over discrimination have surfaced in the pre-summit exchanges over eastern enlargement. These have led to a bizarre set of alliances between the Nordics and the "Club Med" countries, whicb favoured starting negotiations with all 10 central and eastern Europeans and the Union.

As one senior Commission official explains: the Danes and tbe Swedes supported a "common start" as a ruse for allowing the two Baltic states to join Estonia on a fast-track to membership. The Spanisb and Portuguese argued for all 10 to discredit the Commission's forecasts of the costs of enlargement and increase the possibility of preserving their EU budgetary transfers from Brussels.

Meanwhile, Greece pressed for accession negotiations with all 10 applicants in order to kill a French proposal for a pan-European conference for future and present members. The Greeks are bolding firm against Turkisb participation, threatening tbe compromise which Mr Juncker will propose to hlur the line between fast-track countries and those left behind.

All applicants will be invited to take part in accession partnerships, which will offer financial aid in return for meeting the conditions for membership. This includes assistance to comply witb 80,000 pages of *acquis communautaire* – the obligations of membership covering the single market, environment, competition policy and monetary union.

The outsiders will also have their applications subject to annual review by a committee of the member states and will receive extra financial aid once the first wave of central Europeans join the Union, beyond the Ecu 75bn on offer to all 10 applicants. But on one issue the summit is likely to be adamant: a select group of six countries will begin formal accession negotiations in late March 1998.

These negotiations are likely to last a minimum three, probably nearer five or six years. The Commission's own blueprint for enlargement – codenamed Agenda 2000 – spells out that none of the eastern applicants are anywbere near meeting the acquis. The extent to which they will be offered transition periods will be at the heart of the accession negotiations. Here is the catch.

Whatever the warm rhetoric this weekend about overcoming the diviaion of Europe, the reality is that serious bargaining cannot begin until the present members of the EU reach a settlement among themselves over the internal adjustments necessary for absorbing new members.

The first issue is money. Agenda 2000 proposes financing enlargement with an EU budget of 1.27 per cent of EU gross domestic prodnct. This means holding spending in real terms. Net contributors such as Britain, France, Germany and the Netherlands support the idea; but net beneficiaries led by Spain are unconvinced. The budget wrangle will dominate the next three years.

The second challenge is reform of the Common Agricultural Policy. Even without enlargement, the new World Trade Organisation talks due to open in 1999 will force change because, without reform, beef and grain surpluses will beat previous records.

The third obstacle is the reform of EU institutions and decision-making. No one is predicting another Maastricht-style conference, which takes several years to prepare and ratify. It seems likely that the new European Commission, which takes office in 2000, will prepare for an intergovernmental conference strictly limited to adjusting the size of the Commission, the balance of power between small and large countries, and the use of majority voting. But only the present 15 members – not tbe newcomers – will have a say on the outcome.

In this sense, the Luxembourg summitwill underline the gap between present and future members. Thoae lucky enough to be members of the club will offer few clues about the settlement over money, the future of the CAP, and institutional reform will be resolved. In this sense, the EU's decision to invite a select group of countries to open negotiations was the easy part. Now comes the long haul.

LETTERS TO THE EDITOR

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Seductiveness of the short term

From Mr G. Henshilwood.

Sir, Once again in his weekly column, Barry Riley manages to stimulate and aggravate in a few column inches ("Trigger for a shake-up in UK pension funds", December 10). I am not quite sure what point be was trying to make based on his selective use of nine-month performance statistics, hut I trust that his response would be appropriately robust to any manager who tried to extrapolate similar short-term trends.

Let me counter with two Caps-based statistics of my own.

Over the five years to December 31 1996 – a much more sensible period to draw any conclusions – the average pension fund return in UK equities was 16.6 per cent a year. This compares with an index return of 16.1 per cent a year in the same period. Is this a fairer test of active management skills than Mr Riley's "indictment" of "appalling underperformance"?

Over the same five-year period, the average pension fund return in overseas equities was 14.7 per cent a year. Again, this compares feasibly with the world ex-UK Index return of 12.1 per cent a year. Again, is this a fairer measure of fund managers skills than Mr Riley'a seductive but very short-term criticism. And would Mr Riley really want to invest in an index where tbe US market – after ooe of the longest and most prolonged bull markets in history – represents an ever-increasing proportion of the total?

We are all guilty of being selective in the use of statistics. However, nine-month figures – particularly "in admittedly difficult markets of 1997" – is stretching credibility.

George L. Henshilwood,
investment partner,
Hymans Robertson,
221 West George Street,
Glasgow G2 2ND, UK

On an escalator, going up

From Mr Simon Propper.

Sir, With agreement of sorts at Kyoto, it is timely to assess the position of the group most ahle to deliver environmental goals: business.

Of the FTSE 100, 27 companies have so far published an environmental report. From this leading group, just nine companies have aet themselves a quantitative energy reduction target. So there is still plenty to do.

However, there has been a significant culture shift in top boardrooms over the past five years. Where environmental consultancies used to work only with a visionary few, we now have access to the majority of companies across all sectors of business. This escalator is only going one way and UK business has an opportunity to gain competitive edge and create new markets. It's time to start walking up and to make sure that product development and marketing directors are leading the way.

The market opportunities will be immense, and the UK under its current government is well placed to build a reputation for excelleoce and innovation.

My bet is that the next Bill Gates is green and is now a management trainee in a FTSE 100 company.

Simon Propper,
managing director,
Environmental Context,
23 Buckingham Gate,
London SW1E 6LB, UK

Pollution? No future in it . . .

From Mr Michael Brownlie.

Sir, Ice caps melting, seas rising, crops failing and more plagues than the Bible. The world is disappearing under a blanket of buman-induced filth, and what'a Stuart Eizenstat's answer?

Pollntion futures!

Americans, don't you just love them?

Michael Brownlie,
12 St Mary's Avenue,
London E11 2NP, UK

UK urged to adopt regime that caused Asia's problems

From Mr Stephen D. Barber.

Sir, Lex (December 4) takes Mahathir Mohamad, Malaysia's prime minister, to task for seeking to escape the consequences of misguided government policies by calling for increased currency market regulation: "When gradual adjustment is made difficult the only alternative is uncomfortable step changes."

Quite. Asia's problems stem in large part from the implicit attempt to pursue a regime of fixed exchange rates (against the US dollar), such as the UK is now being urged to join in your editorial columns.

Stephen D. Barber,
11 Chepstow Villas,
Notting Hill,
London W11 3EE, UK

Players must please payers

From Mr D. Jewsbury.

Sir, Mr Ray Fearon and his fellow black actors (Letters, December 8) would do well to reflect that it is not Alastair Macaulay whom they need to please, but us, the paying audience. We all know wbat happens when a theatre or opera company fails to satisfy its audience, be it the most respected company in the land. The reasons we choose to watch plays, or not watch them, are many and varied. Inappropriate casting is just one.

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COMMENT & ANALYSIS

FINANCIAL TIMES
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The Kyoto club rules

The structure of a global warming treaty was always going to he more important than the numbers. Too much of the Kyoto conference, which ended yesterday, was spent in haggling about percentage point changes in targets for greenhouse gas emissions.

These targets must be considered against the perspective of a huge international effort that will he required over many decades to limit global warming. In the shorter term, they will mean very little unless the treaty gains popular support in the hig industrial powers, particularly the US. There is now a serious danger that concessions made by US negotiators went beyond what the senate will accept.

Even from the US point of view, rejecting the treaty would be a big mistake. Certainly, the target of a 7 per cent cut in emissions by 2010 appears much tougher than the zero increase which the US had proposed. But the commitment is softer than it might appear. First, although the treaty is said to be legally binding, it is in reality no more than a set of club rules. The US cannot be forced to meet a target which in the end proves too onerous, especially as Congress must pass specific measures needed to meet it.

Second, the hurden on the US will be much reduced by the trading system in carbon emissions, which was agreed in principle, despite eleventh hour objections and many loose ends. This system would allow a rich country to meet part of its quota by paying for a reduction in emissions in a less industrialised country. So the US could achieve its target by helping raise energy efficiency in Russia. US energy users would face less of a burden than they fear.

Some countries, notably India and China objected to the trading scheme because they thought it would let the US off the hook and create too much opportunity for cheating. These two objections need to be distinguished, however.

Certainly, a trading regime will need to be monitored. It must ensure for example that credits are not claimed for improvements which would have happened anyway – or did not happen at all. But provided the trading is approximately fair, it could prove far more effective than the simple reliance on government restrictions which aome countries have favoured. It would lower the global cost of controlling emissions. It would create incentives for US companies to export control technologies. It would provide an incentive – perhaps the only credible one – for countries such as China to agree targets and become full members of the club. Some cheating may even provide a useful safety valve in case the rules should prove too harsh for US voters. For without full US membership, there will be no club.

Mr Adams calls

There were predictable unionist complaints about Gerry Adams, the Sinn Féin president, being welcomed yesterday in Downing Street. But in private the event may have caused greater anxiety to tbe non-violent nationalists of the Social Democratic and Labour party.

Having welcomed Sinn Féin into tbe peace talks in September, Tony Blair in fact had little choice but to invite Mr Adams to Number 10. The government has to treat all parties to the talks equally. Even so, Mr Adams' grandstanding – be proclaimed the meeting "a moment in history" – should make both British and Irisb ministers uneasy.

They hope, of course, that they bave enticed Mr Adams so far down the road of peace that he cannot retreat, and will have to accept a compromise settlement falling far sbort of the united Ireland he seeks. But the truth is that Sinn Féin is basking in favourable publicity without as yet making any concession of substance.

The IRA's return to violence last year did no damage at all to Sinn Féin's popularity among Northern Irish nationalists. The party euccessfully blamed the breakdown on the Conservative government, which it said was hostage to Unionist votes in the Commons. Clearly Mr Blair is not in that poeition, but Mr Adams is still fulminating against the Unionists, who have so far refused direct talks with Sinn Féin, and against the "securocrats" who he claims are still running the syatem in Northern Ireland, apparently in defiance of Mr Blair's "wall-disposed" government. Thus it is clear what line Sinn Féin will take if sometime next year tha IRA decldes mora violence is needed because the talks are not going the way it wants.

Those who want peace have to pre-empt this line of argument by showing that the talks can succeed with or without Sinn Féin. David Trimble, the Unionist leader, has sbown courage by staying in the talks, despite criticism from his rival, Reverend Ian Paisley, by forging a direct relationship with Bertie Ahern, the Irish Taoiseach, and by advocating closer ties between London and Dublin – something Unionists formerly regarded with suspicion.

It may now be the SDLP's turn to feel suspicious, fearing thet Mr Trimble's eagerness for cloeer "east-west" ties ls designed only to avoid serious discussion on "north-south" ones. Such suspicions should be set aside. Only by showing they can achieve something together will the SDLP and Ulster Unionists compete effectively against extremists in their respective camps. The priority for both London and Dublin must be to help them do thet.

German go slow

Tha pace of reform in Germany's heavily regulated economy is proving agonisingly slow. Yesterday the government and oppositiou could only agree on very modest reforms of the pension system to curb its ballooning costs to employers and employees. They decided to increase value added tax to pay the hill. They also watered down plans to open the postal services to private competition, leaving Deutsche Bundespost, the state monopoly, with wide protection against new challengers. It was a disappointing day for the private sector.

One year ago Theo Waigel, the German finance minister, launched an initiative for a comprehensive tax reform, calling for net cuts of some DM30bn. All he can show for it today is a VAT increase from 15 to 16 per cent, a move which will fuel inflation and wage demands, and potentially slow down the sluggish economic recovery.

At least the crippling bill for non-wage costs faced by potential employers has been frozen. But the combined cost of pension, health, unemployment and other social insurance payments now amounts to a record 42 per cent of the gross wages bill for a German employer. Government promises to cut it below 40 per cent by 2000 have proved empty.

Most important legisletion with budgetary implications must be approved not only by the ruling Christian Democrat-Free Democrat coalition in Bonn, but also by the opposition Social Democrats, who control the upper house of parliament. These deals are the result. Some modest pension reforms have been approved, introducing a demographic factor into calculations, which will curb payments after 2015. Given the rising costs, it is little more than tinkering.

As for the planned postal liberalisation, it has been pruned by the opposition and their trade union allies to save jobs in the postal service. A "social clause" bas been inclnded to prevent new competitors paying low wages. Genuine competition has been poetponed at least until 2003.

Hans-Olaf Henkel, head of the German federation of industry, rightly says that the country is run, in effect, by a "grand coalition of social politicians". Both sides are manoeuvring for advantage in next year's elections. It is a recipe for gridlock.

German industry is restructuring to face global competition. The politicians in Bonn are doing too little to help. The advent of the single European currency should do something to concentrate their minds: if they don't move faster, it will further expose Germany's lack of attraction as an investment location.

'This is an unusual situation'

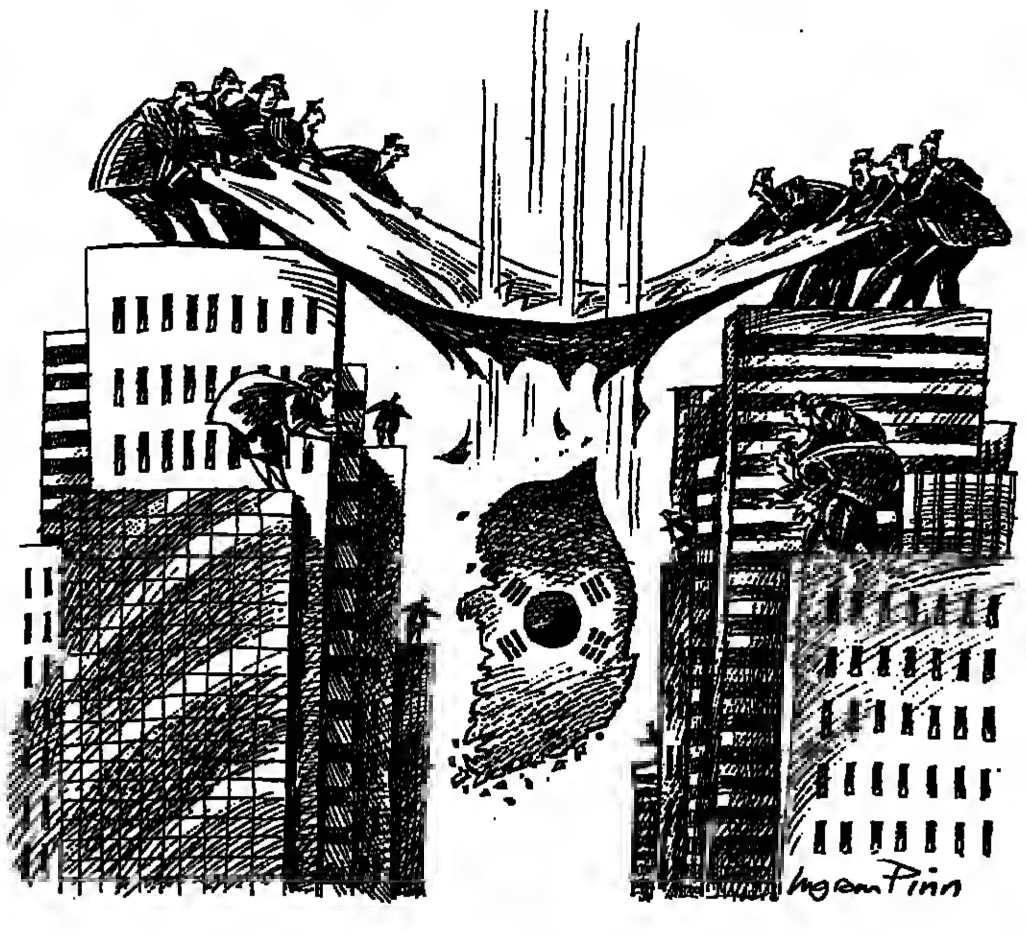
Peter Montagnon explains why the biggest international rescue package in history has failed to stop the rot in Korea

Rarely if ever can an international rescue package have gone so wrong so quickly.

In the week since it signed up to the world's biggest ever bailout, South Korea has seen its currency drop by nearly 30 per cent against the dollar. Corporate bond yields are up nearly 5 percentage points to 23 per cent, and the country's banks and companies seem as much in danger as ever of defaulting on their short-term debt. As if that were not enough, the country is within a week of a presidential election that is distracting politicians from confronting the crisis.

Tha world may be becoming immune to the flood of bad news from Asia but Korea's wretched plight merits uncommon concern. Korea's economy is the 11th largest in the world. A crash would have serious knock-on effects not only in other emerging Asian markets, but also in Japan and the rest of the globe.

As the won dropped another 10 per cent within four minutes of opening yesterday, some people began to fear thet there might be be a meltdown in financial markets. Many Korean companies that have borrowed in dollars against (now devalued) domestic currency assets face insolvency, adding to fears that failures could cascade through the international money markets.



But Lim Chang-yuel, the finance minister, can seemingly do little more than wring his hands. He has thrown open Korea's equity and bond markets to foreign investors earlier than promised and begged the US – so far without success – to release its own contribution to the rescue package.

Beyond that, it seems, there is little comfort he can offer. "This is an unusual situation," he said with masterly understatement yesterday. "The markets will calm down sooner or later."

Yet why has the promise of so much money failed to calm them sooner? And what must Korea and its international creditors do to stop the rot?

There is widespread disagreement about the quality of the advice on offer from the International Monetary Fund, which organised the rescue package. Some economiets claim it imposes too tight a squeeze on an economy already in the grip of deflation. Others say that things might have been even worse had the Fund's macro-economic demands been softer.

Whatever the truth, the background problem is clear. The thumbs-down from the markets is prompted by a perception that Korea is dncking the need for real reform of its heavily indebted bank and corporate sector.

"Nothing is telling the market that the Koreans are working at it seriously," says Chris Tinker, regional economist at ING Barings in Hong Kong. "This is the big problem. Nobody has any confidence that tbe politicians are going to be able to deliver."

The purpose of the IMF agreement was to restore confidence in the currency and allow Korea to attract the capital inflows thet would have helped it meet payments on its $110bn short-term debt. But on three occasions this week the government has sent signals that have undermined investor confidence.

First, it admitted that its sbort-term debt was much higher than previously disclosed, once borrowings by overseas subsidiaries of its companies and banks were accounted for. Adding to the dismay was its admission that its freely available reserves had sunk to $5bn at the start of December (though they rose to $10bn with the first trancbe of IMF money).

Second, the government permitted one conglomerate, Daewoo, to buy the ailing motor division of another, Ssangyong, while forcing creditor banks to reschedule Ssangyong Motors' debt on preferential terms. And third, it injected fresh equity into Seoul-Bank and Korea First, two deeply troubled banks that most investors believe should have been forced to close.

With an increasingly desperate Korea apparently unable to generate capital inflows, all the markets had to do was add the figures and find they did not tally. Since short-term debt was $110bn and the IMF was offering only $57bn, it stood to reason a further crunch would come.

Hence there was nothing to underpin the won, even though, as Mr Lim points out, it bas fallen to a level that promises rich pickings for Korea's industrious exporters. If the finance minister hoped his country's misery would soften hearts in Washington, he was disappointed.

"There is a real limit to bow much global institutions and private financiers can do at this point," says one senior international bank economist who is close to both the US Treasury and the IMF.

A constant feature of Korea's troubles has been tbe government's failure to recognise the extent of its problem and what it must do to solve it, says Jerome Booth, head of research at ANZ International in London.

It does not help that Korea is on the verge of a presidential election. This is likely to be won by Kim Dae-Jung, the opposition leader who has said be will renegotiate the IMF programme.

For now, neither the US nor the IMF apparently want to make extra money available on easy terms. Rather they are holding Korea's hands to the fire in the hope that the uubearable beat will force it to accept reform.

It is o risky course. According to unpublished research by one international investment bank, a refusal by the IMF to grant more loans could prompt Seoul to abandon the programme. That would provoke a contractioo in its economy of more than 10 per cent next year, probably a full sovereign default and a large shock to the world economy. If, on the other hand, the IMF and other countries come io with additional help in the nick of time, says the bank, Korea could scrape by witb modest growtb next year, while the sbock to tbe rest of the world would be small.

It is too early to say wbo will blink. Clearly the IMF and the US are reluctant to throw good money after bad. But Korea is under pressure.

Arguably the real negotiations between Korea and the IMF only began when Michel Camdessus, IMF managing director, signed last week's rescue agreement. But the stakes are becoming daily higher.

George Graham weighs the impact on the global banking system of a possible default

An unnatural calm

The unravelling of South Korea's rescue deal has dealt another blow to bankers who have already taken a battering over their Asian exposure. But central bankers believe that any bank failures are iikely to be handled in a way that avoids a sndden sbock to the intarnational financial system. And commercial bankers remain relatively calm about the impact of Korea's difficulties on the rest of the world.

"It's not something you can ignore, but blowing it ont of proportion would also be a mistake," said Marc Pinto, a credit analyst at Merrill Lynch, the investment bank.

Bankers now believe there is a real danger Korean banks will be unable to pay what they owe to other banks. Fitch IBCA, the credit rating agency, yesterday qualified all its Korean bank ratings, citing the "risk of a moratorium on external obligations".

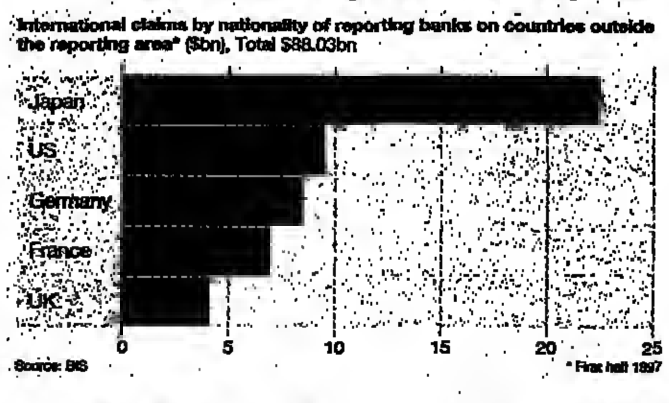
That makes the banking system's calmness look abnormal. After all, the reason for mustering such a buge package was the fear that a Korean collapse would indeed be too big a shock for the world financial system.

According to data from the Bank for International Settlements, international banks had $88bn of loans to Korea at the end of June, with $62bn due for repayment within one year.

Calculations based on these numbers have been thrown out by the government's admission that Korea's short-term debt exceeds $100bn. Still, the totals are some way from posing the sort of problem for international banks that the Latin American crisis did in the 1980s.

South Korea: how foreign banks are exposed

International claims by nationality of reporting banks on countries outside the reporting area* ($bn), Total $88.03bn



Source: BIS
* First half 1997

Although the exposures are large in absolute terms, they are much smaller in proportion to banks' capital base. According to statistica from US bank regulators, the six large US money centre banks – Bank of America, Bankers Trust, Chase Manhattan, Citibank, First Chicago NBD and J.P.Morgan – had $14.5bn of loans outstanding to Korea at the end of June. Much of thet was in the form of trade finance, usually a high quality loan.

Though large, the total was equivalent to 70 per cent of their combined pre-tax profits last year and just 16 per cent of their capital base.

"If Korea turns into Latin America in the 1980s and banks have to write off 30 to 35 per cent of their loans, we're still not looking at e zillion dollars," said Raphael Soifer, banking analyst at Brown Brothers Harriman in New York.

The largest cross-border exposure to Korea lies in Japan, with $22.5bn outstanding at the end of June, according to the BIS data. But this figure is dwarfed by the size of their problem loans at bome.

In Europe, there is none of the same anxiety that followed the failure of Yamaichi Securities in Japan, which prompted European banks to cnt back their counter-party trading limits for other Japanese banks and securities houses. Korean banks have mostly operated in Europe through branches rather than separately capitalised snbsidiaries. They have not built up the same level of business in Europe as have Japanese institutions.

· OBSERVER ·

Maid to Meciar

■ Is Slovakia's strongman preparing to leave the political stage? Vladimir Meciar, who has dominated the country since its birth five years ago, has been hinting that he may not stand in next year's elections – and may not even finish his current term. If he stands and loses, he says, he'll retire from politics.

Meciar, 55, has plenty of reasons to be despondent, including bitter wrangling within his ruling coalition and unfavourable opinion polls. But reaction to his hints has focused on his poor health and his increasingly bizarre behaviour. Even by his standards, the burly ex-boxer has been behaving strangely since he got back to Bratislava from a month-long spa cure a few weeks ago.

First he cancelled government press conferences and sacked both his longstanding spokeswomen after journalists began asking about his new special adviser, Blazena Martinkova, who is also the manager of the spa he attended. He got irritated when he was questioned about her in parliament. Then he caused a diplomatic incident with some of his gleeful comments on the fall of his Czech counterpart Vaclav Klaus, which involved some coarse suggestions about the design of the new Czech banknotes.

Some followers of the cunning and mercurial premier's foibles say he's liable to change his mind again next week. In any case Meciar, who has been twice re-elected after being removed by parliament, shouldn't be written off until he has gone – and maybe not even then.

Nuclear fission

■ When US secretary of state Madeleine Albright jets in to the Democratic Republic of Congo (formerly Zaire) today, its new government will be trying to present some sort of coherent line to such an important potential donor.

But the Alliance of Democratic Forces for the Liberation of Congo won power so quickly it's still going through an identity crisis. Inexperienced ministers regularly contradict each other only to be contradicted again by President Laurent Kabila. They also have a fondness for flights of militant rhetoric which bear little relation to their strikingly pragmatic business sense.

Take for example a recent off-the-cuff suggestion from the economy minister, former painter Pierre Mpoyo, that Congo's staggering $14bn-plus debt should be cancelled on the grounds that the international community owes the country billions of dollars. How come? The uranium for the first atom bomb came from Zaire, and the country was never properly paid. That's one proposal the government is unlikely to press today.

Screen test

■ France 3, the worthy state-run television channel, got some disappointing news on its audience figures yesterday – it's hauling in just 0.7 per cent of viewers. But then, it has been on strike for a week. So are the audience researchers wrong, or are the other channels really so dire that 350,000 French people prefer watching the test card?

Less loot

■ Larry Ellison has lost his place as California's ricbest resident. The Oracle chairman and chief executive saw his net worth reduced by over $2bn on Tuesday when the database software company's shares – of which he holds 227m – took a bit of a dive on the back of poor results linked to the Asian markets turmoil. The Golden State's wealthiest man is now Gordon Moore, Intel co-founder and chairman emeritus.

Ellison is hardly down on his uppers, and should still be able to afford his beloved designer suits, not to mention the 16th century-style Japanese mansion he is building in Woodside, California, and the Russian MiG fighter plane he has been trying to buy.

But the share slide does put Ellison further behind fellow high-tech billionaire Bill Gates, and means he has been overtaken by another Microsoft Croesus – senior vice-president Steve Ballmer.

House call

■ Transparency has become a buzzword for Pasok, Greece's governing socialist party. And who better to show the way than Dimitra Papandreou, widow of the party's founder and owner of a luxurious villa in a smart Athens suburb?

The former Olympic Airways stewardess was less than complimentary about Pasok's current leadership in her best-selling book about life with Andreas Papandreou. A public prosecutor has now summoned her to testify in an investigation concerning more than Dr100m her late busband received as donations from friends – including several socialist cabinet ministers – to refurbish the villa.

The prosecutor is wondering whether some gift tax might still be outstanding.

The Financial Times

50 years ago

President Truman's Message On Inflation
Washington, 11th Dec. President Truman said to-day that anything short of price and wage control and rationing powers for the United States Government would be inadequate to cope with the soaring cost of living. The President proclaimed firmly that he wanted this programme, which calls for price and wage control powers, possible restoration of rationing, allocation of scarce materials, control of speculation on commodity exchanges, limitation of hire-purchase credit and many other anti-inflation weapons, carried out to the letter. "Anything short of it will be inadequate to do the job," he said.

Car Exports To Portugal
Lisbon, 11th Dec. During the first nine months of this year the U.K. exported 1,165 lorries, 3,046 motor-cars and 139 tons of tyres to Portugal, while during the same period the U.S. sold to Portugal 2,349 lorries, 3,209 motor-cars and 603 tons of tyres, and France 240 lorries, 1,370 motor-cars and 182 tons of tyres.

FINANCIAL TIMES
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Clinton seeks time to win support for Kyoto accord

By Bruce Clark in Washington and Bethan Hutton in Tokyo

Tbe US administration yesterday asked for more time to convince sceptics at bome and abroad thet a new accord on tackling climate change was the right move to save the planet without ruining its economy.

While President Bill Clinton hailed the agreement in Kyoto, Japan, as "environmentally strong and economically sound", Al Gore, the vice-president, said it would not be enbmitted for ratification by the Senate until more developing countries had agreed to participate.

Elsewhere in the industrialised world, the agreement – which commits the European Union, the US and Japan to reductions in greenhouse gas emissions from 1990 levels of 8, 7 and 6 per cent respectively by 2010 – was greeted as a welcome first step in warding off the danger of a sharp rise in global temperatures, causing floods, fires, epidemics and other natural disasters.

The EU seemed happiest at the outcome. John Prescott, the UK deputy prime minister, said it was a day to celebrate.

Greenpeace, the environmental campaigning group, said the deal was "a tragedy and a farce", because of the remaining loopholes.

Many US legislators, backed hy industry groups, greeted the treaty with hostility, calling it a disaster for the US economy and a sell-out of national sovereignty.

But Mr Clinton, addressing coastguard personnel in Miami, said critics had exaggerated the disadvantages of environmental action. "Don't believe the sceptics, give us a chance to make the case," he said, adding that much of south Florida could be flooded if temperatures rose because of the greenhouse effect.

Mr Gore said the agreement was a vindication for the administration's market-based approach, whicb beld that "free markets and free minds are our hest bet to win the battle against global warming". He was referring to the agreement's provisions for emissions trading, under which tha US – which accounts for nearly a quarter of the world's greenhouse gases – will be able in effect to buy permits to pollute from other countries.

Senior Republican senators have demanded that the treaty be referred to them immediately so it can be voted down. But the US administration is counting on public opinion to change the legislators' minds over time.

Senator Trent Lott, the Senate majority leader, said the treaty could "empower international bureaucrats to impose financial obligations on the US" and failed to address the concerns of US business and labour organisations.

The American Petrolaum Institute said the treaty would be impossihle to implement without either rationing energy or imposing sharp rises in the price of energy.

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Editorial Comment, Page 15;
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Pressure grows to agree on face-saving 'euro club' deal

By Lionel Barber in Luxembourg

Britain, Denmark, Greece and Sweden will come under intense pressure today to accept a face-saving compromise over access to the informal "euro club" of future members of economic and monetary union.

The deal, which will be presented at the summit of European Union leaders in Luxembourg, falls short of Britisb demands for participation as a matter of course in the new single-currency club.

Unless a compromise is reached, the row over the euro club could disrupt the two-day summit, the centrepiece of whicb is the EU'a plans for enlargement to 10 former Communist countries in central and eastern Europe.

In a gesture to the countries initially likely to stay outside Emu, a draft communiqué prepared hy the Luxembourg presidency of the EU says that "in all instances" the regular meetings of the 15 EU finance ministers will be the prime decision-making hody for future macroeconomic policy.

But it adds: "The joint management of the single currency may give rise to issues only affecting the countries participating in the euro [the future European single currency]. It is noted that in that case, the ministers of the countries participating in the euro will meet to discuss these matters."

These issues are chiefly the exchange-rate policy and sanctions against fiscal delinquents in the single currency zone.

Tony Blair, UK prime minister, told government colleagues yesterday he would stick to his hard line, insisting that attendance at euro club meetings should be the rule, not tha exception, for non-Emu countries. Senior British officials said that, if Mr Blair failed to receive adequate assurances from his EU colleagues, he might withhold his agreement on a summit resolution sought by France, Germany and the bulk of future Emu members.

Meanwhile, EU leaders are expected to issue invitations to five central European countries, plus Cyprus, to open negotiations in late March 1998 to join the EU, most likely early next century.

The five ara: tha Czech Rapublic, Hungary, Poland, Estonia and Slovenia.

The five candidates on a slower track – Bulgaria, Latvia, Lithuania, Romania and Slovakia – will be offered extra financial aid, an annual review of their applications and a place in a pan-European conference for present and future members.

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Brussels to prosecute over aviation deals

Continned from Page 1

the right to pick up passengers in one US city and fly them to another.

The Commission first threatened legal proceedings more tban two years ago but suspended action after winning approval from the 15 EU countries for opening limited negotiations with the US. These talks concentrated on regulatory measures including competition issues, code-sharing arrangements and computer reservation systems. EU countries, including the UK, France and Spain, have refused to allow discussions to cover traffic rights.

Countries still negotiating bilateral agreements were concerned that EU-wide talks would adversely affect tbeir own negotiations. According to Mr Kinnock, the US is only prepared to negotiate seriously with the EU if there is a prospect of an all-embracing deal.

Mr Kinnock is to seek, and seems certain to win, approval from fellow commissioners in the new year to launch proceedings against tha nine countries with agreements. The cases would be taken to the European Court of Justice.

The Commission has been arguing that the EU should adopt a "dual-track" approach by which countries should continue with hilateral talks while the Commission pressed for a European-wide deal.

Japanese business traditions yield to Big Bang

By Gillian Tett in Tokyo

Two of Tokyo's cosy financial traditiona bave crumhled under the approach of Japan's Big Bang deregulation, which will introduce greater competition.

Nomura, Daiwa and Nikko Securities, the three biggest brokers, will no longer provide information showing their market shares of trades on the Tokyo stock exchange. The move follows an unprecedented – and embarrassing – loss of market share by the Japanese to foreign rivals. In November and October, US banks Morgan Stanley and Merrill Lyncb took tbe Tokyo'e top slot for the first time.

The brokers have also agreed to reduce collaboration. In particular, they will no longer hold joint meetings to exchange market information or discuss government policy. This ends the practice of companies tacitly co-operating through quasi-corporate "clubs".

It has long been suspected that Nomura, Daiwa, Nikko and Yamaichi – the "Big Four" club – met secretly on issues of mutual interest. This included, observers say, information about the level of orders foreign companies were placing and the qnestion of bow to handle sokaiya racketeers.

The companies always denied allegations of market rigging and the level of collaboration has slowly declined this decade. But the pattern has long irritated western bankers, who argued that it left foreigners at a disadvantage in Tokyo. None of the brokers is publicly declaring that the secret meetings are over because they never officially acknowledged they took place, but officials privately claim they have stopped in recent weeks.

One reason is that last month's collapse of Yamaichi Securities put an end to the "Big Four" clnh. "Since we are only the Big Three now, there was a cbance to rethink," an official at one broker said.

The more pressing motive, bowever, is that looming deregulation has left the brokers more aware they are in competition. Nikko, wbich partly initiated the move, said: "Big brokers are going to take a more independent stance from now on. We are finding our own bnsiness directions."

Some western bankers argue thet the brokers' withdrawal of data undermines better disclosure, but others point out that such information is not freely available in New York or London.

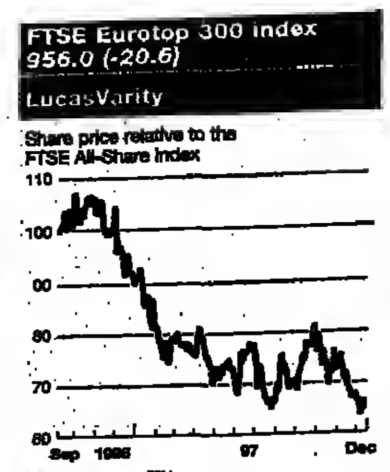
THE LEX COLUMN

Who blinks first?

South Korea is playing a dangerous game of chicken. Scarcely is the ink dry on last week's $57bn International Monetary Fund rescue package than the country is asking for disbursements to be accelerated. If Korea was implementing the IMF's conditions with vigour, such a request might be reasonable. But it gives the impression of backsliding. So how can Korea hope to get its way? Only because it thinks the IMF will be scared thet if Korea defaults on its foreign debt the rest of the world will be dragged down with it.

Korea is used to winning its way through brinkmanship, but this time it may be miscalculating. A default would, indeed, have nasty knock-on effects: exposed foreign banks would have to make provisions; the risk premium for other newly industrialised or emerging countries would rise; and the earnings of multinationals exposed to Korea would be depressed. But none of this would cause a global financial collapse. By contrast, the impact on Korea itself would be devastating. Apart from damaging its credit-rating for decades, a default would plunge its economy into further immediate trouble. Financing imports, for example, would become extremely tricky.

The IMF should call Korea's bluff and refuse further funds until the country shows it is implementing the programme properly. If Korea does default, at least other countries will know the IMF means business.



Climate change

It is easy to pick holes in the Kyoto protocol on global warming. To the environmentalists the 5 per cent cut in greenhouse gas emissions by 2010 does not go far enough. Industry, hy contrast, argues that the compliance costs will stymie economic growth. Many of the details still bave to be worked out. And the US Senate seems determined to reject the treaty outright.

But these sbortcomings abould not overshadow Kyoto's achievements. For the first time the world has set legally binding reductions on greenhouse emissions. This is a big advance on the voluntary limits agreed at Rio in 1992, which were ignored. And this agreement is only a first step. Now a framework has been set, the protocol's standards can be tightened up later – as happened with the Montreal accord on the ozone layer. And the agreement has made a start on designing a global system for trading emission permits between industries and countries. In the US, where such trading already exists, it haa reduced the costs of cutting sulphur dioxide emissions by 90 per cent.

The long-term economic impact of all this is unclear. The simplest way to cut carbon dioxide output is to raise energy prices, whicb would curb growth. But forcing companies to invest in new technology and to become more energy efficient will also bring benefits. Now the politicians have shown they are taking global warming seriously, it is time for business to follow suit.

German taxation

The German govarnment's announcement that it will reintroduce its tax reform bill next month is not quite such good news as it might seem. True, it now looks as though a deal will be struck between the coalition and the SPD opposition. But it has been at the cost of a dilution in the package's original aims.

For a start, the government's target of reducing the net tax take hy DM30bn has been dropped. Germany's overall burden of taxation, which is too bigh, will now not fall as a result of this initiative. Cuts in personal and corporate tax rates will mean taxation baving to rise in other ways. As yet, it is not quite clear where the pain will fall. But higher valne added tax is one likely consequence. There are also fears that, since welfare benefits seem set to rise, corporate taxation will have to increase. Not only could that weigb on the equity market but higher corporate taxes could make it even less attractive for companies to create the new jobs needed to solve the country's unemployment problem.

The proposed cut in the main corporate tax rate from 45 per cent to 40 per cent may help to counteract this.

A simpler tax system, with fewer loopholes and a broader tax base, should improve incentives to invest. But the government has had to give ground even on this point – with the SPD succeeding, for example, in keeping holiday and Sunday wages tax-free. In all, the package will probably be better than the status quo but nothing to crow about.

LucasVarity

LucasVarity is getting round to reshaping its business portfolio, and it remains a bumpy ride. Victor Rice, chief executive, has certainly demonstrated his capacity for ruthlessness by selling the VarityPerkins business wbere he burnished his reputation. The sale does add up: Perkins needed a big investment commitment, and it ought to be worth more to Caterpillar. But at 1.2 times last year's sales, the price looks respectable rather than exciting.

It is also disconcerting that Perkins was a business trumpeted for its sales growth potential. The proceeds leave LucasVarity with £200m-£300m cash towards a spending programme that could approach £1hn. To build np faith in tha growth potential of tha remaining automotive and aerospace husinesses, Mr Rice will need to buy very shrewdly. Aerospace accounts for only 15 per cent of the remaining £4bn sales. It could be filled out with an eye to eventual disposal. More interestingly, a beefed-up automotive business could play a serious role in the international consolidation going on among vehicle parts suppliers.

With annual savings from the merger mounting to £120m next year, Mr Rice can now claim to be delivering on the ruthless side of the bargain. But he still has some convincing to do on the creative/strategic side. It will take him a while to win back investor confidence after underestimating the task at Lucas. Nevertheless the shares do look cheap on a 1998 earnings multiple of less than 11.

Additional Lex comment on Racal, Page 22

FT WEATHER GUIDE

Europe today

Much of Scandinavia will have sub-zero temperatures and snow but southern Norway and Finland will be milder with rain. The Baltic states and Russia will be cold with snow. Snow will turn to rain over eastern Europe. Central Europe will be mostly cloudy, mild and wet but the west and north-west will be cooler and brighter with scattered showers. The Iberian Peninsula will have showers. Thunderstorms are possible across the western Mediterranean and Italy. Greece and the eastern Mediterranean should stay dry with some sun until late in the day.

Five-day forecast

Northern and eastern Europe will have more snow, Scandinavia having the heaviest falls. Central Europe will become colder with rain turning to snow in most places by the beginning of the week. The Mediterranean will stay unsettled with heavy rain in the east.

Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

	Maximum Celsius										
		Beijing	Sun 5	Cardiff	Fair 8	Frankfurt	Shower 6	Madrid	Rain 12	Rangoon	Sun 32
		Belfast	Fair 8	Casablanca	Fair 20	Geneva	Shower 6	Majorca	Thunder 18	Reykjavik	Snow 2
Abu Dhabi	Sun 24	Belgrade	Rain 11	Chicago	Snow 1	Gibraltar	Shower 19	Malta	Drzzl 20	Rio	Fair 28
Accra	Shower 32	Berlin	Rain 9	Cologne	Rain 7	Glasgow	Shower 7	Manchester	Fair 8	Rome	Shower 17
Algiers	Shower 21	Bermuda	Shower 24	Dakar	Sun 28	Hamburg	Rain 8	Manila	Thunder 30	S. Frsco	Sun 17
Amsterdam	Shower 8	Bogota	Thunder 22	Dallas	Fair 7	Helsinki	Snow -1	Melbourne	Fair 25	Seoul	Shower 3
Athens	Fair 16	Bombay	Fair 31	Delhi	Sun 18	Hong Kong	Fair 18	Mexico City	Fair 25	Singapore	Thunder 30
Atlanta	Rain 4	Brussels	Shower 8	Dubai	Sun 26	Honolulu	Sun 27	Miami	Shower 27	Stockholm	Rain 4
B. Aires	Shower 27	Budapest	Shower 8	Dublin	Sun 8	Istanbul	Fair 13	Milan	Fair 12	Strasbourg	Shower 8
B.ham	Fair 8	C.hagen	Rain 7	Dubrovnik	Rain 13	Jakarta	Thunder 32	Montreal	Snow -4	Sydney	Fair 28
Bangkok	Sun 34	Cairo	Shower 20	Edinburgh	Fair 8	Jersey	Shower 9	Moscow	Snow -4	Tangier	Shower 18
Barcelona	Rain 18	Caracas	Sun 30	Faro	Shower 19	Johannesburg	Sun 24	Munich	Rain 8	Tel Aviv	Shower 21
						Karachi	Fair 28	Nairobi	Thunder 24	Tokyo	Shower 12
						Kuwait	Sun 23	Naples	Shower 18	Toronto	Snow -2
						L. Angeles	Sun 24	Nassau	Shower 29	Vancouver	Fair 8
						Las Palmas	Sun 24	New York	Rain 5	Venice	Rain 11
						Lima	Shower 26	Nice	Fair 16	Vienna	Rain 8
						Lisbon	Rain 18	Nicosia	Fair 19	Warsaw	Rain 7
						London	Fair 8	Oslo	Shower 3	Washington	Rain 7
						Lux.bourg	Rain 6	Paris	Fair 9	Wellington	Fair 16
						Lyon	Shower 9	Perth	Fair 25	Winnipeg	Snow -6
						Madeira	Fair 21	Prague	Drzzl 8	Zurich	Rain 7

RECRUITMENT

An expert has questioned the superiority of Anglo-Saxon labour models, says **Robert Taylor**

Debunking the flexibility myth

Job creation lies at the top of the UK agenda for its six months in the European Union presidency which starts on January 1, according to Tony Blair, the UK prime minister. He believes the formation of more flexible labour markets remains the best government response to Europe's high level of unemployment and he hopes mainland EU countries will recognise and learn from the UK's jobs achievement.

But as Stephen Nickell, a professor at Oxford University, has argued recently in a seminal article in the Journal of Economic Perspectives, the debate about labour market flexibilities and rigidities is much more nuanced than the simplistic attempt to juxtapose the UK-US neo-liberal model against an over-regulated European social market.

He asserts: "There are features of the labour markets in some European countries that help to sustain high levels of unemployment. Some of these features can be thought of as rigidities. However, there are many other so-called rigidities that do not cause high unemployment and, indeed, may serve a useful purpose."

In fact, as he shows in impressive detail, EU labour markets are widely diverse. Prof Nickell even believes the differences between them are "much greater" than the difference between the European average and North America.

His own calculations suggest about 30 per cent of the population of OECD Europe lives in countries where average unemployment rates are lower than in the US. These countries include Austria, Norway, Portugal and Switzerland, which have highly regulated employment systems. The UK, with its flexible model, had an average jobless rate higher than half of its European neighbours for the 1983-1996 period.

Prof Nickell also uses statistical evidence to show that, contrary to conventional wisdom, job turnover rates are no higher in North America than they are in Europe. Nor are overall wage rates more flexible. However, he found US workers (like those in Sweden and Norway) are more mobile both geographically and in moving between jobs than most Europeans.

Prof Nickell goes on to construct a comparative labour standards index. This covers a range of employment regulation: working time; fixed-term contracts; employment protection; minimum wage; and employee representation rights. Each country is then scored on an index range of zero to 10 in each regulation. The result shows that the southern European countries are less flexible than countries further north.

His conclusions should be absorbed by the policy-makers. Firstly, he argues that strict employment protection legislation and laws on minimum labour standards do not appear to have any serious implication for average unemployment levels. Nor apparently does a generous provision of unemployment benefit as long as this is accompanied by pressure on the unemployed to take jobs, a fixed limit on benefit duration and a concentration of resources on raising the ability or willingness of the jobless to get back into work.

The high level of unemployment in Europe, Prof Nickell argues, is associated with four labour market conditions. These are: generous unemployment benefits that run on indefinitely with a low priority given to getting the jobless back into work; high unionisation levels combined with collectively bargained wages not achieved through co-ordinated negotiations; a high minimum wage for young people coupled with high payroll taxes; and poor educational standards.

Prof Nickell suggests if high unemployment is defined as more than 120 per cent of the US rate for the 1983-1996 period, which was 7.8 per cent, eight out of 15 European countries had higher rates. But these included the UK as well as Spain and France.

He concludes: "Many features of the labour market that are popularly viewed as serious rigidities apply no more to the high unemployment group than they do to the low unemployment group. It is clear the broad-brush analysis that says that European unemployment is high because European labour markets are 'rigid' is too vague and probably misleading. Many labour market institutions that conventionally came under the heading of rigidities have no observable impact on unemployment."

Prof Nickell's article deserves a wide public audience because it casts doubt over the claim that the UK's flexible approach to labour markets is superior to anybody else's. There are some welcome signs at last that the official British attitude is growing a little more sophisticated.

Gordon Brown, the UK chancellor, was magnanimous enough in his presentation to the Luxembourg jobs summit recently to accept that European countries enjoy different levels of achievement on employment creation, which are not mechanistically linked to the degree to which their labour markets can be described as flexible.

But the most heartening sign of a new subtlety in the debate has come from Adair Turner, director-general of the Confederation of British Industry. His organisation is conducting a wide-ranging analysis of EU labour markets, which will be published in full early next year. In a speech delivered recently to a conference in Italy, Mr Turner highlighted the different dimensions covered by the term "labour market flexibility".

Some, he pointed out, arouse little disagreement. Geographical flexibility or mobility is crucial to avoid regional unemployment. Functional job flexibility within the workplace is the key to competitive success. Skills flexibility enables individual employees to flourish. Flexible working hours can prove beneficial to employers and employees alike.

But then Mr Turner recognised two other forms of labour market flexibility are less acceptable, at least to workers. First, there is the employer's flexibility to restructure and dismiss workers. He suggested such flexibility could be important regarding future job creation because companies might be less willing to recruit if regulations make it more difficult to shed labour.

Secondly, there is real wage flexibility. This involves a widening pre-tax inequality in income distribution with a huge income growth at the top of the earnings league, coupled to a devaluation of unskilled labour at the bottom.

Mr Turner argued in Italy – and employers please note – that a choice has to be made between accepting US-style labour market flexibility that increases job opportunities but is also likely to widen income inequalities, or opting to limit wage dispersion through labour market intervention but at the expense of higher employment. In his view, it is possible to achieve real wage flexibility if it is underpinned by reasonable income support levels through a combination of a minimum wage with earned income tax or benefit credits. In fact, this is what Britain's government looks ready to develop over the coming year as its welfare-to-work programme gathers pace.

**Unemployment and labor market rigidities: Europe versus North America. Stephen Nickell, Journal of Economic Perspectives, Vol 3, 1997*

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Head of Investment Banking

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You will need to ensure essential procedures are followed and to display confidence in decision making which your technical expertise brings. Your personal and professional credibility coupled with your technical skills will be vital ingredients in achieving this. You must also demonstrate the enthusiasm and flexibility that such a challenging environment will demand.

Interested candidates should write with full CV, quoting current rewards package to Karen Wilson, Hoggett Bowers, 7-9 Bream's Buildings, Chancery Lane, London EC4A 1DY. Tel: 0171 430 9000. Fax: 0171 405 5995, quoting ref: LKW/12994/FT.

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Financial Times

EUROPEAN ACCOUNT DIRECTORS

Technimetrics

Technimetrics, Inc. is the leading provider of global shareholding and fund management data to the banking and stockbroking community worldwide. With offices in London, Tokyo, Amsterdam, Sydney, Sao Paulo and New York, we offer the most comprehensive and accurate financial data available.

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Candidates will have a strong sales background and ideally a good understanding of capital markets. Excellent presentation and communication skills are essential. Language skills desirable.

We offer a highly attractive compensation and benefits package. For prompt, confidential consideration, send your CV with covering letter to:

Technimetrics, Inc.
110 St. Martin's Lane
London WC2N 4AZ
Ref: Personnel Dept., Inst.

Global Custody Client Service

Morgan Stanley is one of the world's leading international securities firms, providing a full range of global custody services including clearing, settlement, treasury, safekeeping and mutual fund accounting to institutional investors. Morgan Stanley Bank Luxembourg plays an integral role in our regional and global product offering.

We offer our clients a fully integrated service, the quality of which is based on our absolute commitment to having the best people, information and automated systems. We are looking for ambitious people to work in the Client Service department. Client Service is responsible for managing client relationships and ensuring the overall quality of service provided to our global custody clients with a primary focus on relationship management, daily account coverage, project and risk management, training, industry participation, contract and fee negotiations.

Specifically, we are seeking candidates for the following positions:

Manager

You are probably working for a global custodian or asset manager and have at least 8 years' relevant experience. You are results oriented, have a proven track record in team management and maintain high standards for your team as well as for yourself.

Coverage Officer/Analyst

You will have 2-7 years' relevant experience and have developed a sound technical understanding of the securities markets. You enjoy working in a team environment, value the responsibility of managing relationships and have a client focus in everything you do.

All candidates should be energetic, creative individuals. They should possess excellent interpersonal and communication skills and have a desire to join a dynamic successful team. Language skills are advantageous but not a pre-requisite.

This is an excellent opportunity to build on your experience in global custody. Similar positions are also available in our London office. Please submit your curriculum vitae with current remuneration to the location of your preference.

Morgan Stanley Bank Luxembourg S.A, Reference JC, 6B Route de Treves, L-2633 Senningerberg, Luxembourg.

Jenny Thomas, Morgan Stanley UK Group, 25 Cabot Square, Canary Wharf, London E14 4QA, England.

MORGAN STANLEY BANK LUXEMBOURG S.A.

Our client is a leading IT consulting company with subsidiaries throughout Europe. The company is a strong SAP Logo Partner in Northern Europe. To meet increasing demands from clients concerning international project fulfillment our client is establishing an international team to coordinate activities in local markets.

4-6 SAP Project Managers to form a new international team

Consulting and Project Management
You will be part of an international team implementing SAP based solutions for large European clients. You will have the opportunity to participate in all project life cycles: Defining needs, designing solutions, scoping projects, planning and managing internal and external resources and problem-solving. Your projects will involve large clients throughout Europe.

SAP experience and ambitions
You hold a Masters degree and have 2-5 years of experience implementing SAP solutions either from a SAP customer e.g. as super-user or project manager, or from a SAP Logo Partner as consultant, project manager or technical specialist. You have the ability to analyze and discuss technical as well as business aspects related to SAP solutions.

Your work style is energetic and systematic, and you are good at motivating other people. You want to continue your career internationally in a position as either project manager or consultant. You speak and write English.

Entrepreneurial spirit and perspective
You will join the company at an early stage of the organizational start up. You will therefore have the opportunity to influence your own development and that of the organization. The company has an extensive programme of education which will ensure that you function continuously at a high professional level. You will receive an attractive salary package.

Please mark your application "162.4517" and send it to Mercuri Urval A/S, Philip Heymans Alle 5, DK-2900 Hellerup, or phone +45 39 45 65 00 to obtain more information. Our client will not be informed of your application prior to your consent.

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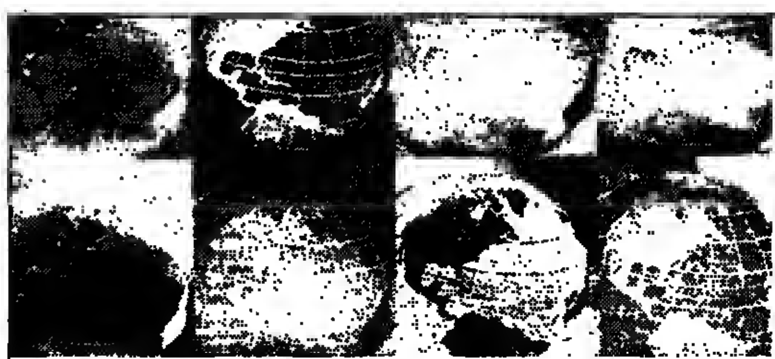

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To become part of one of our teams, you will need strong leadership ability, a successful professional career to date, language skills **(minimum bilingual french/english)**, and to possess the following qualities :

- understanding of business environment,
- open and creative mind,
- analytical skills and intellectual discipline,
- excellent communication skills and aptitude to promote change.

If you feel you correspond to the above profile, send your CV to SOLVING INTERNATIONAL, attention of Yves HOMBREUX - 144, avenue des Champs-Elysées - 75008 Paris - FRANCE.

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Our client is a leading international investment bank. As part of its continued growth, it requires a commercially focused, bilingual French/English, experienced manager to run their European Translation team. The role is extremely demanding and challenging; requiring experience in financial translations as well as strong management skills and the ability to organise and motivate. The manager will supervise the translation of a large volume of time-sensitive material and will be responsible for a dedicated team producing high quality translations whilst meeting critical deadlines.

Contact Alex Gaze for an immediate interview.

106 Salisbury House, Finsbury Circus, London EC2M 5QQ
Tel: 0171 588 8999 Fax: 0171 588 8998

New Financial Times Appointments Section

Trading Places

For the announcement of changes to senior personnel within your company contact:

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ACCOUNTANCY APPOINTMENTS

هكذا من الأصل

Group Financial Controller

Co Durham — **c £45-55,000 + FX Car + Bens**

Our client is a listed, high volume manufacturing business supplying a range of quality clothing products to Marks & Spencer. The majority of production occurs within the UK, although growth will be assisted by further international sourcing initiatives.

As part of the current phase of re-engineering the business to enhance future performance and expansion, a Group Financial Controller is sought to promote exceptional quality levels throughout the company.

Key areas of responsibility will include:
- Driving through new strategies including improved procedural and financial system enhancements.
- Working closely with the newly appointed Business Systems Director on widespread MIS issues.
- Reporting to the Group Finance Director and in regular contact with Group executives and business unit heads.
- Financial control of group accounting including treasury activity.
- Motivation and leadership of finance team.
- Part of the development team for future business opportunities aboard.

The position will require a high profile to be maintained and an element of travel will be required in the North of England, the Midlands and to London.

Relevant candidates will be qualified accountants, preferably trained within a 'Big 6' chartered accountancy firm and aged at least 30 to 37 years old. You will possess a minimum five years experience in a high volume manufacturing business, together with extensive operational and commercial experience to complement broad financial skills. The presence and credibility to communicate at senior levels is essential as is a forceful, yet diplomatic, approach.

If you feel you have the necessary qualities to succeed in this high profile role, please contact James Newman at Michael Page Finance, Leigh House, 28-32 St Paul's Street, Leeds LS1 2PX enclosing a curriculum vitae, daytime telephone number and details of current remuneration package, quoting reference 387490.

MP
Michael Page Finance
Specialists in Financial Recruitment
London Bristol Birmingham Edinburgh Glasgow Leatherhead Leeds
Maidenhead Manchester Milton Keynes Nottingham Reading St Albans & Worldwide

PolyGram
Treasury Manager

Luxembourg — **£ Attractive Package**

With interests in music, film, video and television and offices in more than 40 countries, PolyGram is in the business of global entertainment. The Treasury function plays a key role in managing risk to ensure the Group's financial well-being.

Flexibility is an essential ingredient in the Group's outstanding record of success. To help sustain this, the Group intends to further develop the Treasury function in Luxembourg. Forming part of PolyGram's Group Treasury operations, this role will have full responsibility for the management of substantial financial assets and related FX transactions on behalf of PolyGram Operating Companies, worldwide.

Interested candidates will need substantive experience of financial management in a banking or treasury environment and will have excellent communication skills and the energy and know-how to manage a small operation in a fast changing environment.

If you are ready to develop your international experience within entertainment, or are considering the challenge of a second career, please send a full curriculum vitae and covering letter, quoting reference 385042 to Mike Deane at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN.

MP
Michael Page International
International Recruitment Consultants
London Paris Amsterdam Dusseldorf Frankfurt Madrid Milan Hong Kong Singapore Sydney Melbourne Auckland New York

UK Financial Controller

Bay Networks
Maidenhead — **c £35,000 + Car + Benefits**

Bay Networks is a leader to the worldwide internetworking market. With revenues in excess of US $2 billion, they provide worldclass switching/routing, access, internet and network management products and services. Formed in 1994, they have developed a global presence through significant mergers and superior product development and are a NYSE quoted company. The UK operation is budgeted to turnover US $250 million next year and consists of three UK offices with over 100 people and its headquarters based to Maidenhead, Berkshire.

At a time when the networking industry is experiencing major rationalisation, Bay Networks is growing at an impressive rate compared to their major competitors. This strong performance has created an opportunity for a commercially focused Financial Controller within the UK company. Reporting functionally to the European Financial Director based in France, operationally to the UK Managing Director and as a member of the UK management team, responsibilities will include:

- Supporting the Country Management Team on pricing, promotions and special business deals.
- Revenue forecasting, budgeting and planning.
- Liaison with the shared service finance function in Valbonne, France.
- Provision of financial support and control to three UK subsidiaries.
- Liaison with auditors, sales, engineering and the UK management team.

This senior role has been created to provide closer financial support across all operational functions. As a result, the ideal candidate will be a qualified accountant with at least three years PQE. Applicants will need to be able to demonstrate a commercial outlook and exposure to a "sales-led" environment within the hi-tech, retail or service sector would be an advantage. This role will best suit a proactive accountant who is ambitious to develop the UK business and liaise extensively with non-finance staff, whilst maintaining a hands-on approach to controlling the UK finances.

In return, Bay Networks offers an excellent remuneration package and the opportunity to grow within a rapidly expanding US corporation. Interested applicants should forward a comprehensive CV, including details of current salary and a daytime telephone number, quoting ref 388039 to Peter Istead at Michael Page Finance, 40-42 High Street, Maidenhead, Berkshire SL6 1QE.

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London Bristol Birmingham Edinburgh Glasgow Leatherhead Leeds
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Finance Director

North London — Lombard Network Services — **c £75,000 Package**

Lombard Network Services, a joint venture between the Lombard Group and GATX Corporation, is a computer leasing company with a difference. Their strategy is to improve their clients' IT efficiency by providing a total and flexible solution encompassing all aspects of financing, acquisition and support of networked systems. With this approach, they have developed rapidly into a major force in their sector and they now seek a Finance Director to deliver continued success. This is a key role, the rewards for which will include a substantial long-term financial incentive.

THE POSITION
- Leading a team of five, take responsibility for all financial issues including planning, reporting, analysis, budgeting and liaising with the joint venture companies.
- Play a major role in the overall management of the organisation, contributing to strategic and operational matters in all areas of the business.
- Be actively involved in the sales process, providing *support to the sales teams on financial issues* and *advising* potential clients.

QUALIFICATIONS
- A qualified accountant with an appreciation of the leasing industry, you will be entrepreneurial in nature with excellent commercial awareness.
- You will possess the interpersonal skills and the motivation to influence people at all levels of the company, as well as clients and suppliers.
- Additionally, you will have a flexible approach which *allows you to thrive within a fast moving and* non-bureaucratic environment.

Interested candidates should write enclosing full career details, current salary and, where possible, a daytime telephone number to John Anderton. at Questor International, 3 Burlington Gardens, London W1X 1LE. Please quote reference 2349. Fax 0171 287 5457. E-Mail: john@questorint.com

QI
QUESTOR INTERNATIONAL

Financial Controller

Central London ***c£50,000 + car & benefits*** — ***Influential Head Office rôle requiring international travel***

Highly acquisitive, dynamic, £1bn+ engineering plc... with extensive manufacturing interests and impressive brand portfolio, spanning the globe. Now focusing on core sectors. Strong corporate financial management structure. Following internal promotion to Divisional Finance Director, now seeking to strengthen the Controller function which evaluates commercial and financial plans in all operating units.

Key part of small Head Office team... critically reviewing commercial and financial performance within operating units. Assist in progressive development of financial management. Represent Group at operating unit Board meetings. Assess and make recommendations on investment/acquisition plans. Appraise and monitor operational risks. Career path open to progress into line management.

Graduate, qualified accountant.... preferably with industrial experience. Both strategic awareness and pragmatism as important as analytical ability and well developed commercial acumen. Bright and energetic, with sensitivity to differing international cultures. First class interpersonal, presentation and communication skills essential.

Please apply by sending your CV quoting reference R97184 and stating current salary

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Financial Controller

Amsterdam

£50,000 + Benefits + Performance-Related Bonus

The Company

Our client, an American company with business interests in warehousing, distribution and property throughout the United Kingdom and the continent, has major expansion plans throughout Europe in 1998 and after.

The Role

Reporting to the managing director, the successful candidate will be assisting in the start-up of its international operations headquarters in Amsterdam. Responsible for the full accounting, finance and administrative function in Europe, you will build up the team to manage a business with assets of £1bn.

The Candidate

A graduate with ACA or equivalent, five years post-qualification experience in either the leasing, property or distribution sectors is essential. English is the lingua franca. One or more European languages will be useful later in your career.

Deep reserves of physical and mental energy, and a high degree of self-motivation, will ensure a success-driven career in this demanding, results-oriented organisation.

To apply please write enclosing your cv and current salary details to our recruitment advisor, Mike Tate, Hays International, 141 Moorgate, London, EC2M 6TX. Tel: 0171 588 1733. Fax: 0171 588 2329.

Hays International — Hays

VIRGIN
VIE

Head of Corporate Finance

Attractive package — **WEST SUSSEX**

Virgin Vie is Virgin's newly launched cosmetics and toiletries business, retailing over 500 premium quality products. With a flagship store in London's Oxford Street, a mail order service plus three further stores and a direct sales network already in place, Virgin Vie plans a total of 100 stores and 3000 consultants in the UK within a five year period, plus an extensive *international roll-out programme.*

This is an unconventional company that requires an extraordinary individual whose personality will harmonise within an environment that is informal, highly professional and extremely fast paced. The business is driven by individuals working closely together at all levels, so you will need excellent communication skills with the ability to deliver and inspire exceptional performance.

The Position
- Responsible for all day-to-day financial operations, including treasury management and all financial planning - both operational and tactical.
- Review existing and develop new financial policies and procedures and improve financial controls.
- Support Finance Director in developing the strategic direction of the business, including the establishment of various international relationships.
- Provide leadership, guidance and motivation to the existing finance team.

The Requirements
- An accomplished finance professional, either a chartered *or management accountant, with a* strong track record of personal achievement and development.
- Strong technical skills and an in-depth understanding of relevant systems, able to demonstrate this in a practical manner.
- Excellent and proven people management skills with the ability to motivate, educate and provide leadership.
- Articulate individual, self-motivated with an outgoing and resourceful personality.

Please send your CV with current salary details to: James Gray, K/F Selection, 252 Regent Street, London W1R 6HL, quoting ref: 90442A/04.

Alternatively send by fax on 0171-312 3380 or by e-mail to kfs-london@kornferry.com Internet Home Page: http://www.kfselection.com

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Virgin

Finance Manager

SAUDI ARABIA — **EXCELLENT TAX FREE PACKAGE + BENEFITS**

Company Profile
- Leading services company setting new standards of excellence in the logistics and transportation sector. Holds the prestigious Avis franchise.
- Highly *professional* infrastructure led by a multi-national management team.
- Strong quality culture and customer focus. Committed to significant future growth.

Role
- Responsible for all elements of the finance function and the preparation and submission of financial statements. *Accountable for compliance with all statutory* requirements.
- Ensure the company's finance strategy supports the business objectives.
- Develop and improve all aspects of financial planning, control, reporting and the provision of management information.
- Identify areas of cost reduction, manage cash resources and evaluate new capital/project expenditure.
- Foster effective cross-functional/ divisional working relationships and contribute to the broader strategy of the business.

Candidate
- Graduate calibre, results oriented qualified accountant with a strong commercial and customer focus gained within a progressive corporate environment.
- Highly motivated with excellent organisational and interpersonal skills.
- Team player with the confidence and authority to impose the disciplines of good financial management in an entrepreneurial and multicultural environment.

This represents a good opportunity for international career development in a secure but stimulating environment, supported by a tax free salary (high savings potential), bonus and comprehensive range of expatriate benefits.

Please write in confidence, with full career and salary details, to Geoffrey Walker, MSI, Search and Selection, 178-202 Great Portland Street, London W1N 6JJ. Fax: 0171 637 5293. Please quote reference 64892.

MSI
SEARCH AND SELECTION

Finance Director

Croatia — **First class package**

Our client is a major international company with core interests in the manufacturing and supply of building materials and a worldwide turnover of £4.5 billion. Sustained organic growth and a vigorous acquisition programme has seen the group sustain its market leadership throughout Continental Europe. The company now seeks a Finance Director to oversee recently acquired Croatian operations.

Reporting to the UK, with responsibility for the four main functions of treasury, IT, accounting and costs, the role will involve working closely with other functional directors, banks and local business agencies. Managing a finance team of thirty the job will also require sensitivity to local Croatian cultures and methodology.

The successful candidate will be a Qualified Accountant with a proven track record of achievement within an International environment. Energy, drive and enthusiasm will be tempered with diplomatic and influencing skills that will ensure excellent career development. A working knowledge of Croatian is desirable, as is the ability to implement long term fiscal and strategic planning.

Interested candidates should forward a resume with details of their current remuneration to:

WARWICK MCLINTOCK INTERNATIONAL

EBC House Kew Road
Richmond Surrey TW9 2NA
Telephone: 0181 940 4900 Fax 0181 9406524
Out of hours: 0181 943 0414

PLC Finance Director

-Complex Manufacturing, Fashion related-

A Role with Broad Commercial and General Management Involvement

M62 Corridor — ***to £80,000, benefits, options, car***

- *The client is a recent MBO Company and a medium sized fully quoted plc operating from three sites with approximately 900 employees, manufacturing for a wide customer base, essentially the fashion marketplace.*
- *Successful, well established and respected, it is looking to further develop via organic and acquisition led growth.*
- *This is a full plc Board position covering responsibility for all aspects of the financial management of the company and associated activities including IT.*
- *Candidates of the highest calibre and with real experience in blue chip manufacturing environments are required. Aged 37-45 with a good degree, a full professional qualification and a progressive career track record in complex manufacturing environments, you will need to have had real exposure to cost control, operational development and profit improvement in a multi-stage process operation.*
- *A pragmatic, broad-thinking allrounder with a hands on style and proven commercial acumen will suit the company culture. Exposure to fashion retail, garments or textiles manufacturing and related sectors is advantageous.*
- *This is superb long term career opportunity in an entrepreneurial, well established plc and the benefits package is very comprehensive and will not present a real obstacle to the right candidate.*

Please forward in absolute confidence a full curriculum vitae to AF Advertising Limited, Bawcliffe Court, Bowcliffe Hall, Bramham, Leeds LS23 6LW. Tel: (01937) 841402. Fax: (01937) 841403.

£ Six figure package plus benefits — ***Blue-Chip Multinational*** — ***Yorkshire***

Finance Director

Key role at the heart of a rapidly growing, profitable, c. £300 million international business involved in the design, manufacture and distribution of high value products to niche markets. Part of a highly successful £600 million group which is a world leader in its field. Due to internal promotion, a commercially minded finance professional with a background in a blue-chip international company is required. Strategic and operational role with international travel and excellent career prospects.

THE ROLE

- Report to the Managing Director and member of the Executive with responsibility for a team of 50. Accountable for reporting, treasury, financial management and systems.
- Review the efficiency of data collection and consolidation from international subsidiaries. Provide strategic perspective and leadership for the introduction of a new, worldwide IT system.
- Key contributor to continuing growth plans with specific responsibility for evaluating, completing and integrating international acquisitions.

THE QUALIFICATIONS

- Ambitious accountant, probably mid 30s to mid 40s, who has operated at a senior level in an international manufacturing company.
- Exposure to US reporting and the currency complexities of a business operating internationally. A track record of providing management information within a complex international organisation.
- Clear leadership and man-management qualities with the potential to go further. Commercially and culturally aware.

Leeds 0113 230 7774
London 0171 298 3333
Manchester 0161 499 1700

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Please reply with full details to: Selector Europe, Ref. PHR/27899-1/127, 16 Connaught Place, London W2 2ED

To US $250,000 package plus benefits — CABLE & WIRELESS — ***Hong Kong***

Chief Internal Auditor Asia/Pacific

One of the leading global telecommunications companies, Cable & Wireless has a £6 billion business in the Asia/Pacific region, centred on the publicly-listed Hong Kong Telecom, plus Optus in Australia, and operations in Singapore, Indonesia, Japan and the Philippines. Forthcoming retirement opens up a vital position for an exceptional business-oriented finance professional to take on audit and security for Hong Kong Telecom and control of the Asia/Pacific audit group. Future career opportunities in London and around the world.

THE ROLE

- Reporting to the CEO and Audit Committee of Hong Kong Telecom, and to the C&W Group Director of Risk Management in London; responsible for the full range of audit functions across the region.
- Managing a team of 60 people spanning internal audit, group security, risk management, revenue assurance and revenue integrity. Delivering measurable operational results in addition to giving advice.
- Working closely with Group HQ in London and with external auditors, providing an independent voice at the most senior business levels.

THE QUALIFICATIONS

- Widely experienced, mature finance professional, with first-class track record encompassing audit and unimpeachable technical credentials.
- Must have extensive experience of the Asia/Pacific region. Knowledge of the international telecommunications industry a great advantage.
- Personal gravitas in communicating at Board level and, outstanding motivator of staff. Independent thinker with boundless determination and stamina.

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Selector Europe
Spencer Stuart

Please reply with full details to: Selector Europe, Ref. TJV/01094-10/127, 16 Connaught Place, London W2 2ED

COMMERCIAL FINANCE OPPORTUNITIES

ACA/CIMA/MBA — **£35-40k + benefits + relocation**

Shell UK Exploration and Production is the largest operator and acknowledged leader in the field of Oil and Gas Exploration and Production in the North Sea. To ensure we fully capitalise on our position, we have reviewed our business strategy and shaped a new culture to take us into the 21st century.

We are looking to recruit a number of talented, mobile finance professionals to share in the development of our challenging environment. Based at Shell Expro's financial hub in Aberdeen, the roles provide high profile exposure to senior management and business units.

With the emphasis on added value and effective internal communication, the positions encompass the preparation of management reports and other key financial information as well as the provision of in-house financial consultancy services. Extensive liaison with operating divisions to improve key business processes will be combined with projects including the preparation of the company's annual business plan, analysis of results and presentation of information to management and shareholders.

Candidates are likely to have at least four years' finance experience, gained either in practice or a blue chip organisation. Qualified accountants or MBAs with good hands-on commercial accounting ability, applicants will also need excellent interpersonal skills and the confidence to liaise with and challenge colleagues throughout the organisation. Success in these roles will require computer literacy, strong team skills and the ability to juggle competing priorities and tight deadlines.

The rewards and benefits are highly competitive with excellent long-term career development opportunities including, for mobile and high-performing staff, the opportunity to move into line management or operational roles either in the UK or overseas.

Interested applicants should post or fax their CV, including salary details and quoting ref: 256 to the address below. For more information telephone (+44) 171 242 9191 (weekdays) or (+44) 1480 477437 (evenings and weekends).

Any CV sent direct to Shell Expro will be forwarded to Alderwick Consulting.

Shell is committed to providing equal opportunities for everyone and welcomes applications from all sections of the community.

ALDERWICK CONSULTING
SEARCH & SELECTION
95 FETTER LANE, LONDON EC4A 1EP. TELEPHONE: (+44) 171-242 9191 FAX: (+44) 171-242 5700

BRAUN

Outstanding Finance Professionals

Sunbury-on-Thames — **£Attractive + F/E Car + Benefits**

Forming part of The Gillette Company, Braun is a world leader in the small electrical appliances industry, with a strong presence in Europe, North America and Japan.

Braun UK is a lean and highly successful autonomous operation, headquartered in Sunbury. Owing to an overseas promotion, two outstanding finance professionals are now required to join the UK Finance team.

Manager - Financial Planning & Analysis (Ref.5110)

Managing the Financial Planning and Analysis function, key responsibilities will include;

- Providing high quality commercial analysis to senior management
- Providing strong commercial support to Sales and Marketing
- "Process owner" for planning and forecasting.

Finance Manager (Ref.5111)

Managing the Financial Accounting function, key responsibilities will include;

- Ensuring the accuracy, integrity and timeliness of financial accounting
- Managing company secretarial, legal and taxation
- Maintaining a strong internal controls environment
- Significant project work.

Both positions will report directly to the UK Finance Director and will consequently require a confident and articulate approach, liaising regularly with Senior Managers and Directors across the Business. A qualified accountant with strong academic achievements, you will have gained an impressive record of between 3 and 6 years post qualification experience. You are committed, energetic, tenacious and capable of working in an environment which is characterised by a competitive, forward thinking culture.

The Gillette Company is a $10 billion revenue global consumer products group, which includes Parker Pen, Oral-B, Duracell, and of course, the Gillette range of blades, razors and personal care products. Career development across different functional and geographical businesses is actively encouraged and the development of its people is of key strategic importance. Opportunities for rapid career development exist and geographical mobility, combined with a generally flexible attitude will be viewed as critical to ongoing advancement.

Interested candidates should apply to our advising consultant, Jonathan Jones at Jones Christopher, enclosing a full curriculum vitae and remuneration details. Please quote the relevant reference on all correspondence.

Note: Any CVs submitted directly to Braun UK will be forwarded to Jones Christopher.

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FINANCIAL RECRUITMENT CONSULTANTS

Jones Christopher, 4th Floor, Linen Hall, 162-168 Regent Street, London W1R 5TB. Tel: 0171 306 3202. Fax: 0171 734 6280.

REGIONAL FINANCIAL DIRECTOR

National Housebuilder

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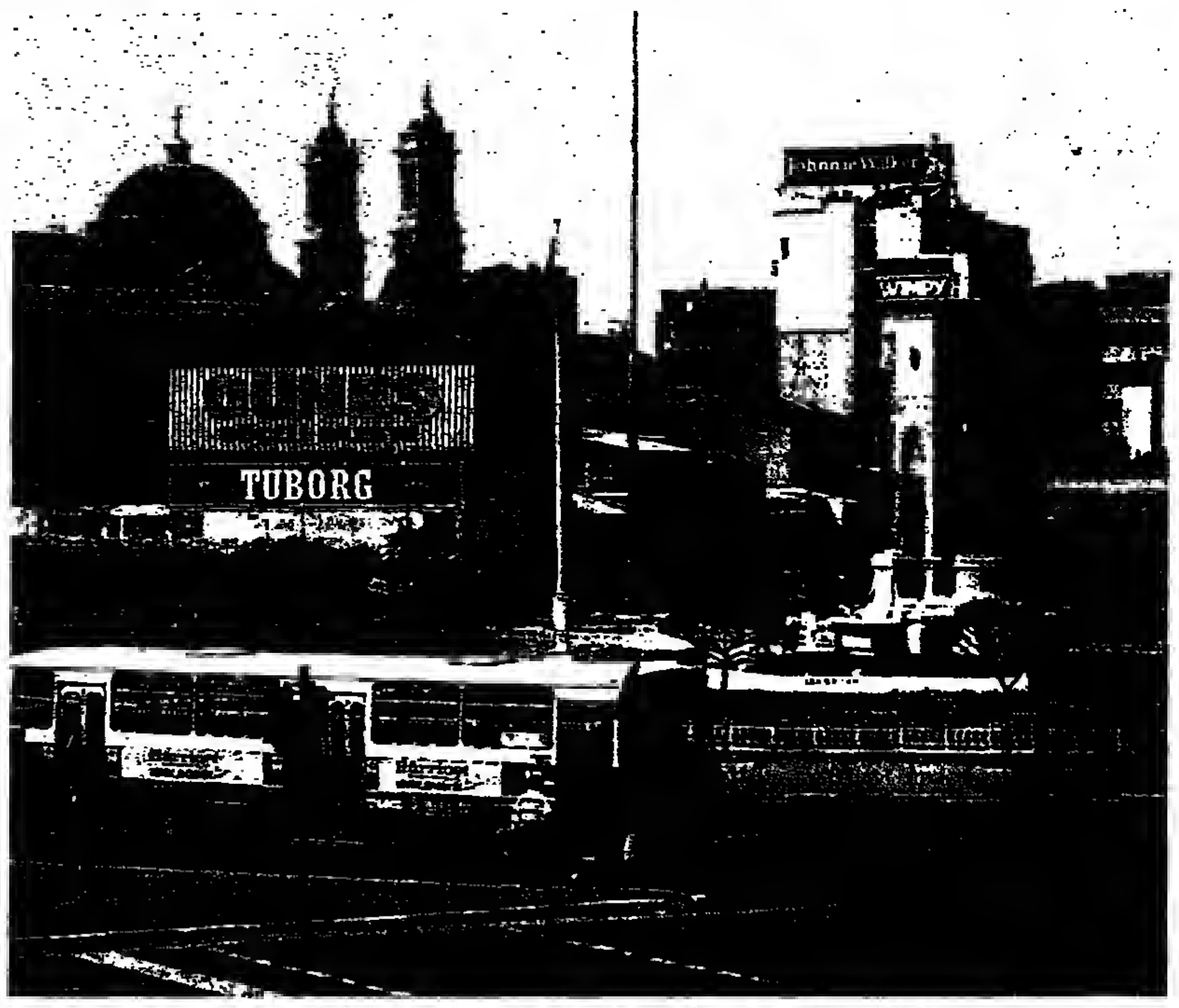
TURKISH FINANCE AND INDUSTRY

Political stability is needed to attract investment and unlock the economy's full potential. **John Barham** reports

A near-miracle of resilience



Both foreign and domestic companies have found success in Turkey, despite political and economic uncertainty

There is something almost miraculous about the ability of Turkish companies to prosper in an atmospbere of beavy inflation and persistant political instability. Governments come and go, interest rates shoot up and down, but profits keep climbing, exports rise and companies get bigger.

Business failures are so rare as to be a source of wonder. Bad loans are a negligible portion of the banking system's assets. Success in the face of these adverse conditions has created a feeling of near-invincibility in Turkish business. Turkey'a bosses may rant about the political chaos emanating from Ankara but tbey are also proud of their ability to prosper in conditions that horrify most foreigners.

Rahmi Koç, owner of Turkey's biggest industrial group Koç Holding, told an international business conference that "one great advantage the Turkish entrepreneur possesses is his resilience in economic crises and his ability not only to survive, but also to advance in volatile conditions."

Many of the features of the Turkish business paradigm are well known: avoidance of debt; hair-trigger reactions; shunning local currency wbenever possible; an ability to rapidly carve out new export markets; a powerful entrepreneurial instinct; a new generation of highly qualified young managers. Somewhat less virtnous characteristics of the Turkish way of doing business include short-termism; a big underground economy; under-investment; tax evasion; and heavy dependence on money markets for corporate profits.

Turks have lived with galloping inflation and political instability for decades, yet they have managed, particularly since the dawn of economic liberalisation 15 years ago, to build an impressive industrial base. A growing population, urbanisation and rising incomes provide an expanding domestic market. The government's loose economic policies fual inflation, but also deliver economic growth.

Business has prospered this year, with industrial output rising 11.5 per cent in the third quarter and gross domestic product growing 6.2 per cent between January and September. Exports jumped 14 per cent to $24.39bn during the first 11 months of the year. Other things being equal, analysts expect next year to be even better. Salomon Brotbers, the New York investment bank, say "third-quarter results indicate strong performance across the sectors and 1998 should be a good year for a wide range of industries in Turkey".

A customs union between Turkey and the European Union (EU), now in its second year, has not laid waste Turkish industry as some observers feared. Local car companies have suffered, but many industries that compete with EU exporters – notahly in consumer durables – are actually increasing their market share. Indeed, Tüsiad, Turkey's principal business association, is a supporter of integration with Europe, with a new Brussels office.

However, an erratic economy and political uncertainty have deterred foreign investment. Turkey receives less than $1bn a year in direct foreign investment, much less than its size warrants. Yet foreign companies that have taken the plunge are oftan very successful. Turkey is Marks and Spencer's biggest non-UK franchise, and it plans to have 12 stores by 2000. Coca Cola has its biggest European plants in Turkey.

Business leadera ara increasingly aware of the costs that inflation and instability impose on the country, particularly now that Turkey is one of the few countries in the world still struggling with runaway inflation. Yavuz Canevi, chairman of Yased the foreign investors association, says: "there is an awareness that inflation cannot [be allowed to] continue."

Erol Sabanci, one of the four brothers who runs Sabanci Holding, Turkey's second largest conglomerate, says: "Inflation is the poison of society and can bring the big headacbes of social unrest. It must be tackled."

The central bank calculates that the Turkish economy would be twice its size today had inflation been held to ten per cent a year between 1970-1995. Higher incomes would have brought bigger sales. Stability and low interest rates would hava unlocked access to long term capital. Direct foreign investment would have increased substantially.

Disinflation would hurt banks and companies at first as they make the wrenching transition from a culture of instability to one of stability. Analysts say weaknesses in the financial system would be brutally exposed as costs rose and interest rates fell. Industrial companies would lose the cushion of easy money market profits. However, having absorbed the shift to stability, Turkey with its population of 65m and hunger for consumer goods, could begin to offer some of Europe's greatest business opportunities.

However, this still lies in the future. Although the business world affects to have set its own course and given up on the politicians, it recognises that Turkey can only reform the economy after overcoming the political impasse in Ankara. Mr Koç said "Turkey's problems are not economic but mainly political. To make fundamental and long lasting changes you need strong governments and for this we need to change the present political system." Only then, he believes, can the economy's problems be addressed.

Tüsiad, Turkey's principal business association, has sought institutional reform for years. It wants abolition of big government through privatisation and through the devolution of responsibility for basic social services to local authorities. Political reform would improve Turkey's chances of EU membership, an objective cherished as much by the business establishment as it is by the politicians.

Although it is the private sector that is powering the economy ahead in the 1990s as the public sector decays, the liberal business élite has never succeeded in shaping the political agenda. A former Tüsiad chairman even formed his own party, but did not win a single parliamentary seat in the 1995 elections. Former politicians and top hureaucrats often take jobs in the private sector and senior executives often serve as ministers but with little effect on Ankara's closed world of politics.

The centre right, Turkey's political heartland, is split between three parties one of which is always out of power and unites with the Islamist or the centre left opposition to frustrate government attempts at reform. The populist right, with its roots in provincial towns, tbe self employed and small businesses, also dislikes reform but coexists in all three parties with the cosmopolitan liberal elite, further complicating tha political scene.

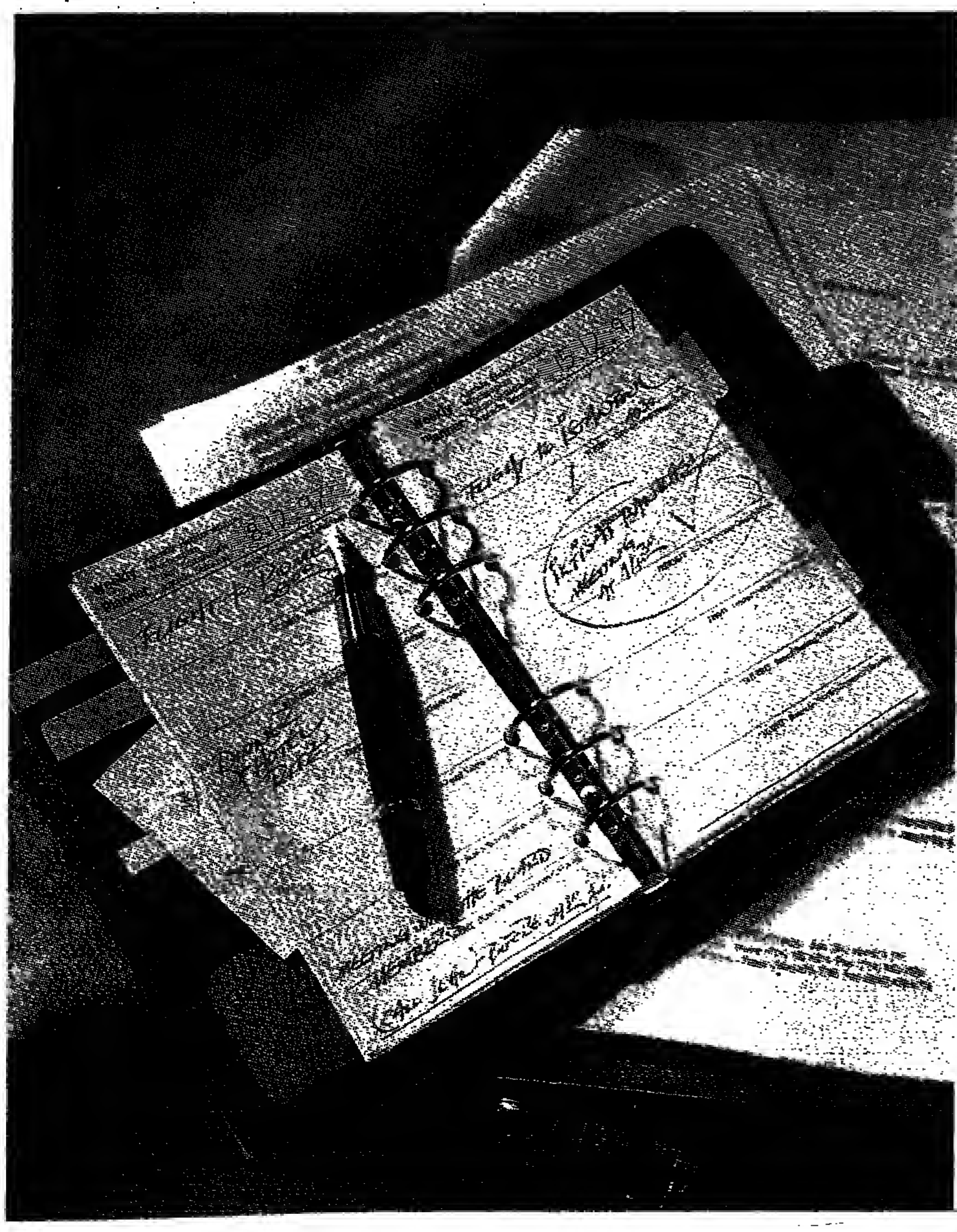
Mesnt Yilmaz, who became prime minister almost six months ago, is struggling to hold a fractious coalition together at the same time as designing a coherent anti-inflation strategy. Achieving both tbese aims simultaneously is proving difficult. The government lacks a parliamentary majority and tha coalition includes two conservative parties and a centre left party that has not shed a viscerai suspicion of big business and foreign capital.

The business world and the politicians on the left and right agree on one tbing. They do not want to see Necmettin Erbakan, the Islamist leader, and his Welfare party back in power again. His erratic eleven month government, toppled in June by a military-led political war of attrition, frightened foreign investors and raised doubts over Turkey's traditional western orientation.

There is widespread agreement in the boardrooms of Istanbul and in Ankara's corridors of power that economic hardship rather than religious fervour is boosting support for Welfare. The economy may be expanding, but growtb is not sbared equally across the social spectrum. Employment and incomes are rising, but unemployment still remains very bigh among urban youths and educated workers according to the OECD.

Ironically, it is the private sector's ability, however imperfect, to stave off economic collapse and generate growth, hard currency and jobs, that is allowing the politicians to put off reform.

IN THIS SURVEY



BANKING • by John Barham

Reforms need speeding

The hoped-for reduction in inflation will pose the banks new problems

Banking is one of Turkey's most profitable businesses. Profits rose hy one-third in 1996, and this year is likely to be just as good. Bankers are pleased, but some are uneasy at their depeodence on inflation and high interest rates for a hig chunk of their profits.

Yavuz Canevi, chairman of TEB, a mid-sized bank, says: "If inflation really comes down, some banks will be in difficulty. The global economy is very volatile. It hits your weak points, and our weak points are inflstion and public finances."

Dardo Sabarots, the Argentine head of Citibank's Turkish subsidiary who witnessed Argentina's byper-inflation and subsequent dis-inflation, says stability, whicb reduced inflation would bring, helps banks at first because their stocks of high-yielding government hills become more valuable as interest rates fall. The economy starts growing rapidly, and consumers and businesses borrow more.

But stability also reveals weaknesses. Banks must slash costs, competition turns savage, bringing a wave of consolidation and foreign ownership. Citibank aims to hecome Turkey's biggest foreign bank.

Turkey's banking industry is tiny and the foreign preseoce negligible. The banking system's 1996 assets of $83.34bn were equivalent to under half of GDP. The largest bank, Yapi Kredi Bankasi (YKB), ranks 167th in ths world. Several banks are now planning initial public offerings or looking for foreign partners.

Even moderate dis-inflation could bit banks hard. Turkey has no inflation sccounting rules, which makes lt difficult to monitor costs. Lending takes a back seat to bond market trading. In 1996 loans were less than half the hanking system's assets, a ratio that scarcely changed in five years.

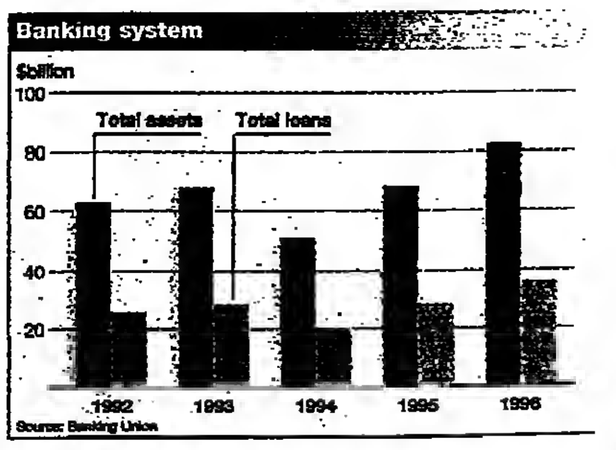
Easy bond market profits encourage banks to expand assets and open branches to scoop up cheap deposits that are fully guaranteed by the government.

Banks' portfolios of t-bills and hig off-halance sheet positions in the fixed income market are highly profitable now, hut could prove disruptive if interest rates drop sharply.

Devaluation would be dangerous too, because hanks use medium-tarm foreign loans to fund shorter-term bond portfolios or loans to Turkish borrowers, not all of whom have hard currency revenues.

Over-indulgent supervision and auditing encourage banks to overreach themselves. Erol Sabanci, wbo runs Akhank, one of Turkey's higgest banks, says: "Akbank's sccounts are transparent. How transparent [other banks] are is questionable." Analysts say political pressure forces supervisors to spare banks witb well-connected owners. Gazi Erçel, central bank governor, who began his career as a hank examiner, rejects these accusations.

Banking system



Source: Banking Union

Yet there are some glaring imperfections in the regulation of banks. The government does not announce wben it helps banks in trouhle. There are rumoured to he 10-15 hanks receiving state funding at low interest rates until their owners are able to inject extra equity. Article 64 prevents hanks from increasing deposits, hut Mr Sabanci says drily: "To be sick is an advantage."

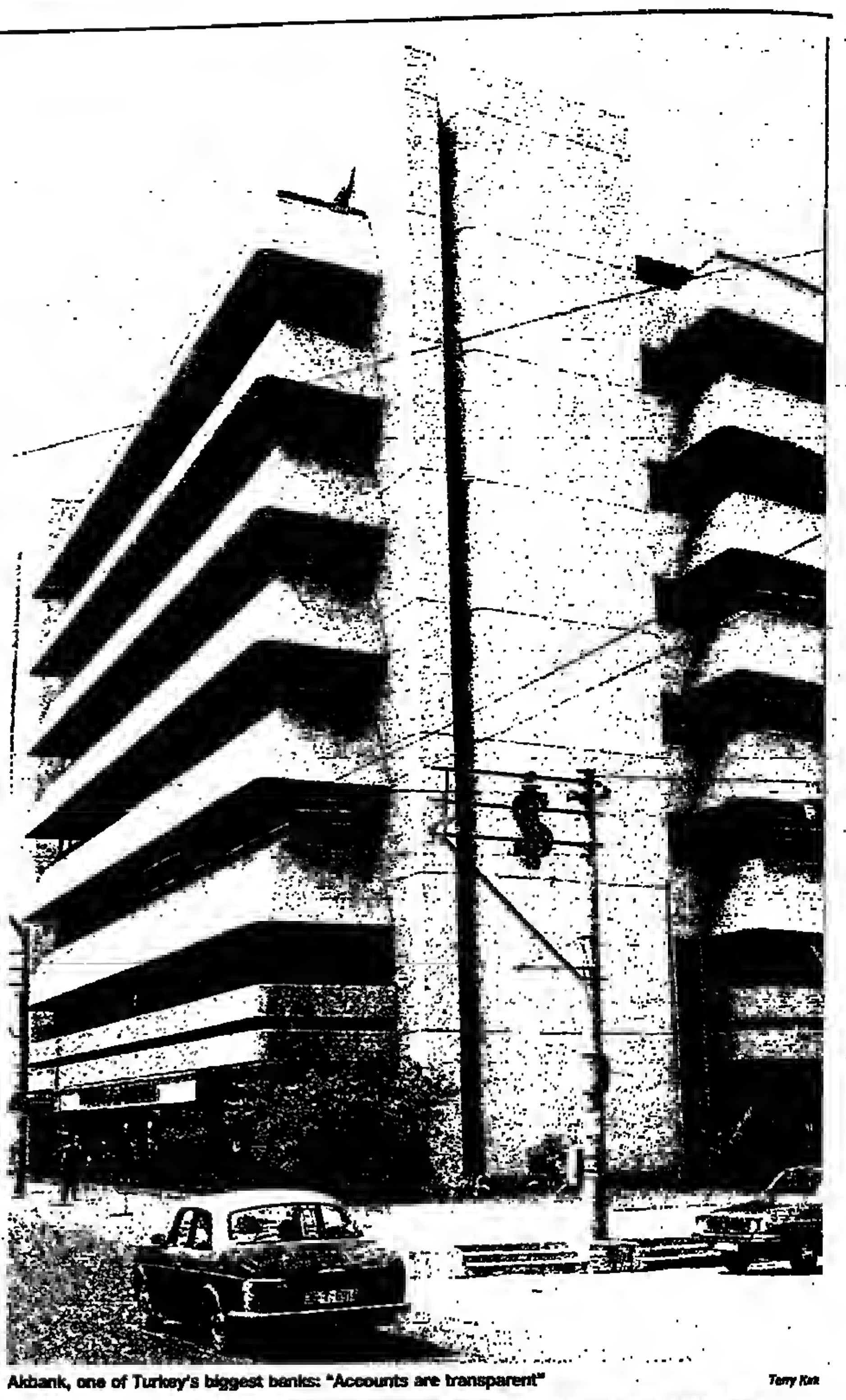
A second problem concerns government deposit guarantees, introduced as a "temporary measure" in 1994 during a severe financial crisis. This indirect suhsidy enables shaky banks to attract cheap deposits. The market already differentiates hetween strong and weak banks, hut the variation in deposit rates would probably widen considerahly if the guarantee were lifted, threatening the viability of some banks.

A third issue is the too-close relationship hetween owners and borrowers. Turkey's big banks all belong to powerful industrial holding companies. YKB, for instance, is owned hy the Çukurova gronp. Moody's, tbe credit-rating agency, says Çukurova forced Interbank, another group bank, to huild up "a large exposure in excess of prudential regulations" to connected companies during the 1994 crisis.

Çukurova sold Interhank to another bolding company last year, but Moody's says the prohlem persists: "Exposure to Çukurova was redneed, hut replaced by exposure to the new owner. These two amounts totalled over 37 per cent of the balance sheet at the end of 1996 and sit on the hank's books as medium- to long-term facilities funded by short term deposits."

Not all banks are in the same situation – Akbank has only 15 per cent exposure to group companies of the Sabancl industrial empire, nearly all of it pre-export financing. Still, some bolding companies may be forced into desperate stratagems to keep their banks if their industrial arm faces difficulties. The government plans to solve these problems with an independent "super regulator" to oversee banks, insurance companies and capital markets.

Reform will only be complete when the government carries out its promise to privatise by 2000 its four banks, which hold just under half the banking system's assets. Private bankers say they lgnore mandatory capital ratios, conceal bad loans and use the state sector as a captive source of cheap funds. Their accountahility is clouded by the fact that their legal owner, the treasury, is both their regulator and higgest borrower.



Akbank, one of Turkey's biggest banks: "Accounts are transparent" Terry Kirk

The better private banks are well-capitalised. They apply modern management techniques, and control is strong. This should help them survive the stresses of falling inflation, just as lt has helped withstand years of volatility. But capital strength does not guarantee survival.

Institutlonal Investor reports that in spite of "sound prudential ratios" at many Argentine banks, for example, almost a quarter of the country's 205 banks closed or merged during a bout of turbulence in the first nine months of 1995.

Turkey's larger banks have already begun reducing their reliance on t-hills. They are investing in technology and staff to increase lending to private corporate and retail borrowers. YKB has a new computer centre outside Istanbul to improvs control of its branch network and upgrade customer service.

Analysts warn that banks have neglected the skilled husiness of lending during the years of laying one-way bets in the bond market. One disturbing indication of possible pitfalls ahead came last summer when Tursem, a hig tour operator, folded. As well as stranding thousands of foreign tourists in Turkey, it emerged that few of the 14 banks that lent it $50m had carried out more than a cursory check of a business that its owner admitted "bad problems for a long time".

Turkey: balance of trade ($bn)

	Imports	Exports	Balance
1992	14.7	22.9	-8.2
1993	15.3	29.4	-14.1
1994	18.1	23.3	-5.2
1995	21.6	35.7	-14.1
1996	23.1	42.7	-19.6
1997 (Jan-July)	13.7	25.1	-11.3

Source: State Institute of Statistics

Inflation has almost killed off retail banking. Basic products like mortgages or consumer loans barely exist. Spending on life insurance is 0.4 per cent of the UK total. Turkey is Visa International's fastest-growing market, altbough at $9.4bn, annual sales volume is just 7 per cent of volume in the UK.

Mr Saharots says once Inflation subsides, these and other services should explode. The banks that survive the trauma of dis-inflation could be as profitable as they were during the fat years of inflation.

PROFILE Labour costs

Flexible and cheap

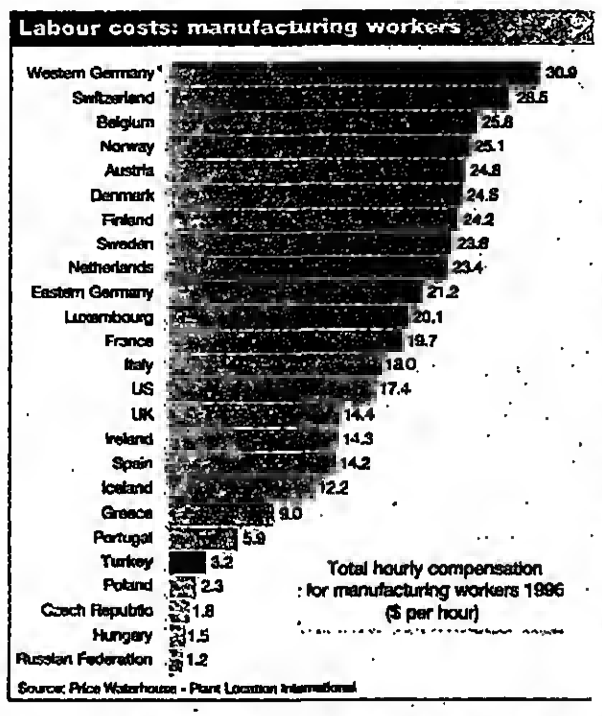
Turkey's economy is growing so fast that labour shortages are beginning to appear in some parts of the country. Factnries and shops in Istanhul are having to advertise for staff.

The boom, however, does not seem powerful enough to make a hig dent in wages and employment levels throughout the country.

This may be bad news for workers, but it does underline the advantage Turkey has over other economies competing for foreign investment. It has one of the lowest labour costs in Europe. Hourly rates are half those in Portugal, the poorest European Union country. Wages are also lower than in some eastern European countries and many developing countries.

The government's foreign investment directorate says, however, that Turkish labour productivity growth is among the strongest in Europe. Turkey's workers are raising their productivity at 3.6 per cent a year, compared with the OECD average of 2.8 per cent.

Labour costs: manufacturing workers



Source: Price Waterhouse - Plant Location International

Wages are climbing, particularly in the more developed regions surrounding Istanhul and the Aegean coast. This is forcing companies to invest in more advanced technology, or to relocate lahour-intensive activities to the Anatolian heartland and the south.

The technical skills of qualified staff in Turkey tend to be very high. Multinational companies that have used empowerment management techniques to grant workers greater autonomy have found Turkish workers to be more flexihle and resourceful than those in developed countries. Unionisation is weak outside the public sector.

But years of under-investment in education means that many Turks enter the labour market equipped only with basic literacy and numeracy skills. Under new legislation approved in July, the government says it will raise spending to increase the quantity and quality of education children receive. Previously, compulsory ednication was limited to five years. Compulsory ednication has now increased to eight years, and the government plans to spend more on education, which will ultimately improve the quality of the country's work force.

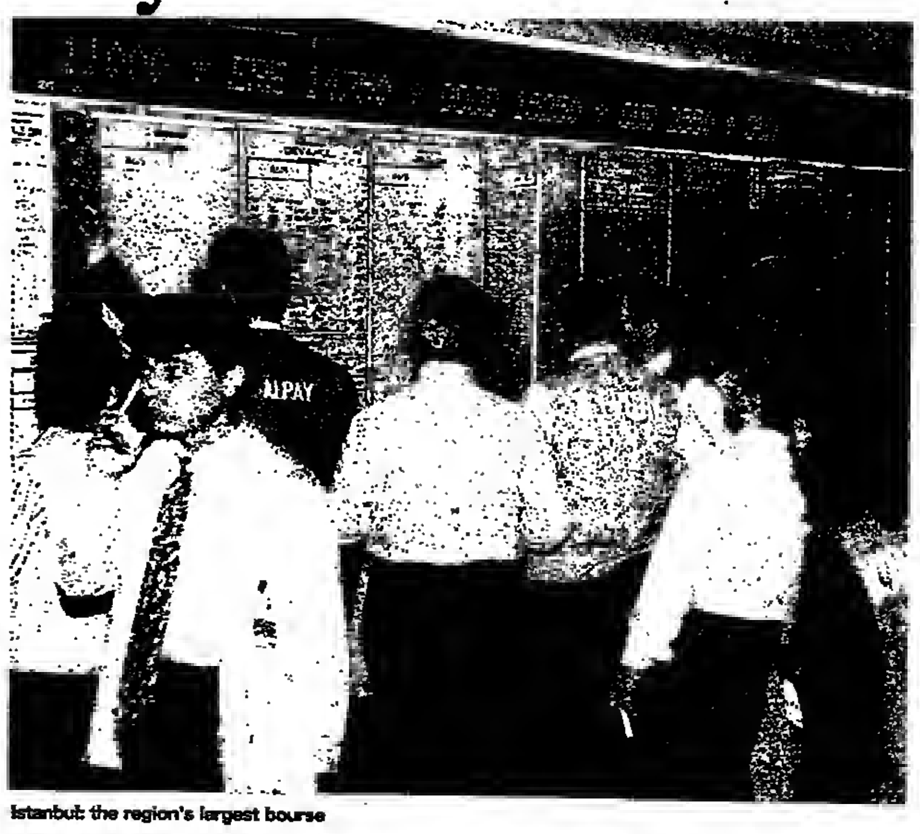
PROFILE Istanbul Stock Exchange

Driven by domestic concerns

The bourse was able to avoid the worst market turbulence but problems remain

Turkey's financial markets took a thumping during the market turmoil of October and November. But they never entirely succumbed to the panic that gripped other countries. This may appear surprising, given that Turkey is labouring under 90 per cent inflation and a shaky political system. But Turkey's weak economic fundamentals and scant progress on privatisation have deterred the torrents of volatile capital that overwbelmed other markets.

Isolation has not prevented Istanbul from developing into the region's largest financial centre. Ths Istanbul Stock Exchange (ISE) was founded in 1985, and it boasted market capitalisation of $52.48bn in November. Twenty-six companies listed in the first 10 months of the year, hringing the number quoted to 254. Daily turnover ranges between $250-$400m. Although the ISE's main index fell during the upheaval in emerging markets, it turned in a dollar-based rise of 64 per cent between January and November.



Istanbul: the region's largest bourse

Growth has been driven almost entirely hy domestic, rather than foreign, investors. Foreign fund managers hold about one-fifth of the market's free float. Few local investors care or know much about international markets, further insulating Istanbul from international volatility. But there is enough local volatility to keep investors busy. Political developments strongly effect the market – a remark by a politician can move the market by 10 per cent in a day.

The market remains somewhat unsophisticated. Turkish Investors hop restlessly between equities, fixed income and foreign currency. Ministers claim they act on insider tip offs rather than responding to market forces. Güneş Taner, the economy minister, says cartels manipulate share prices. "This group definitely has to he repressed," he warns. "If some smart guys think they can continue doing it, they should be ready to face the consequences. They will get hurt. The thing that hurts a man the most is to take his money away. We won't let anybody get away with unlawful earnings."

Convictions for trading offences are unheard of. The government now wants to combat the prohlem. Plans include: creating a new "super regulator" with enhanced powers; providing staff and funding to police the capital markets, banks and insurance companies.

Better regulation would certainly help Istanbul develop. Equally important would be the emergence of local institutional investors such as insurance companies, investment and pension funds, bnt heavy inflation and restrictive regulations hamper growth. The state-run pension system and private insurers must invest in government securities rather than in the shares of private companies.

The debt-ridden treasury is crowding the private sector out of the capital markets on a massive scale. Turnover in the fixed income market – including the over-the-counter and the 'repo' repurchase markets – where only government paper is traded, averages $4bn-$5bn per day. The t-bill market, rather than equities, is the financial system's powerhouse.

Banks and companies rely on t-bills for a large slice of their profits. The Istanbul Chamber of Industry found that in 1995 its 500 largest members – which include most of Turkey's higgest companies – earned more than half their profits from the financial markets, mostly interest income from repo transactions. Although political stability and the possibility of lower inflation next year has driven yields down, clever traders can still earn profits of 30-80 per cent in dollar terms.

The authorities are trying to establish Istanbul as a regional financial centre. The ISE has set up an offshore market as a platform for companies from the surrounding Balkan, central Asia and Middle East regions, who are unable to meet more stringent listing requirements in developed markets. However, the exchange has got off to a slow start.

Only one company, a Kazakh bank part-owned by Global Securities, one of Istanbul's leading brokerages, has listed. Attempts to drum up liquidity hy trading the $15bn worth of nntstanding Turkish government Eurobonds have fallen flat thanks to tax and regulatory prohlems.

A new gold exchange set up last year has proved more successful. It now trades 1.2 tonnes of the metal a day. However, it is demand for physical gold by retailers, rather than gold as a financial asset, that is driving the market. Physical gold is still a popular savings instrument. Turks have hoarded about 4,000-6,000 tonnes of gold over the years.

Still, the exchange launched its first gold futures contracts in August boping this would hroaden its appeal to financial institutions. Eventually the exchange wants to launch currency derivatives, currently available only on an over-the-counter basis in the interbank currency market. But accounting and tax regulations, as well as lack of familiarity with derivatives, have hampered development.

John Barham

INTERVIEWS John Barham talks to Gazi Erçel, governor of the central bank, and to Mahfi Eğilmez, one of Ankara's most respected technocrats

An ongoing struggle for fiscal prudence

Bankers believe government targets for lowering inflation are optimistic

The government's economic credibility suffered a big blow when Mahfi Eğilmez, treasury undersecretary, resigned last week. Few bankers or business executives would have worried too much if a cabinet minister or two had resigned. But the departure of Mr Eğilmez, one of Ankara's most respected technocrats, was different. Stock market prices fell and bond yields jerked upwards merely on the rumour that he was quitting.

Financial markets considered the donnish Mr Eğilmez, 47, together with Gazi Erçel, the affable central bank governor, plus a group of two or three other top bureaucrats, as the guarantors of sound economic management and supporters of reform.

In an interview before his resignation, Mr Eğilmez, 47, said: "People do not understand what is going on. They think they can afford this kind of inflation."

Turks have lived with instability and inflation for generations: 40 years ago one US dollar bought nine Turkish lira. Today the dollar is worth almost 200,000 lira. Yet Mr Eğilmez said the public was beginning to realise that the time had come to deal with the problem. "People are seeing that to live through this kind of inflation is more difficult than to curb it." Turkey was one of the few countries in the world still suffering from severe inflation, he said.

He and Mr Erçel, 52, saw inflation, which the government said will hit 100 per cent this year, as by far the country's most serious economic problem. Mr Erçel argued that "over the last two decades inflation has become the most disruptive force in the economy, responsible for many of the big problems facing Turkish society. Fighting inflation cannot belong to a single party's programme. It should be the first priority of all politicians."

The government of Mesut Yilmaz is still committed to bringing down inflation, but the departure of Mr Eğilmez means it will have to work harder to maintain the credibility of domestic and foreign financial markets.

Both Mr Eğilmez, who was appointed in July this year, and Mr Erçil, who took office in April 1996, are alumni of Ankara University, the breeding ground for elite bureaucrats. The two men had served the state for decades, with stints in the private sector and in Washington. Mr Erçel worked at the IMF and Mr Eğilmez as economic counsellor at the Turkish embassy.

Although they are products of the statist economic system, with its sprawling state monopolies and fierce protectionism, they are fervent free marketeers. Mr Erçel was a member of the team that masterminded economic liberalisation in 1980 under Turgut Ozal, who later became prime minister. At the central bank, Mr Erçel had won great respect for successfully steering Turkey's markets through a period of great political tension in 1996-97.

He and Mr Eğilmez took an important step towards controlling inflation when they signed a protocol this summer limiting the treasury's ability to borrow from the nominally independent central bank. Markets welcomed the protocol, which committed the government to sustainable fiscal policies to lower inflation and interest rates. Big budget deficits were the mainspring of Turkey's inflation. This year's deficit will be equivalent to about 9 per cent of GDP. Inflation has picked up sharply since the summer because of a government decision to increase prices et many state-owned enterprises to boost public finances, ahead of a crackdown on inflation next year.

Mr Erçel said "credibility is the issue". He added that modifying public expectation of high inflation is one of his principal tasks. "Monetary policy is in our hands and we will increase interest rates." The aim was to compensate for any deviations in the government's fiscal policies. Mr Erçel said he was aware of the difficulties of convincing the domestic and international markets.

Most bankers expect inflation to drop next year, but not as quickly as the government had stated as its intention. They expect inflation to be 70 per cent next year, not the 50 per cent target set by the government.

Contradictory statements from the politicians has also not helped build confidence. The stock market slid 9 per cent when Güneş Taner, state minister and Mr Eğilmez's former boss, said last month that the government would cut inflation to 15 per cent by next December. Mesut Yilmaz, the prime minister, later reaffirmed the previous "gradualist" programme to lower inflation to 50 per cent in 1998. Then he proposed a six-month freeze on public sector prices, which apparently caused Mr Eğilmez's resignation.

Mr Erçel said support from the IMF would be "extremely important to give added credibility. Anything can happen if we reach agreement with the IMF". However, Turkey complied with the strict terms of very few of the 16 standby loans it has received from the Fund since 1961. The last one, signed in 1994, unravelled when the government of Tansu Çiller launched a populist election campaign in 1995. Turkish officials are confident they can win over the IMF with backing from Bill Clinton, US president, whom Mr Yilmaz will meet next week.

Although commentators welcomed the treasury-central bank protocol, some criticised Mr Eğilmez and Mr Erçel for waiting to take action until next year. Abdurrahman Yildirim, a respected newspaper columnist, compared the government to a failed slimmer who always promises to start dieting tomorrow. Mr Erçel said although the protocol formally starts in January, it was already being implemented. Many bankers and economists said only radical measures can stop inflation in its tracks.

Mr Eğilmez said: "We do not want to create any shock or crisis for the banking system. The financial sector in all countries benefits a lot from inflation but we do not want to create problems for the banks." The financial system can cope with next year's forecast year-end inflation rate of 50 per cent, "but if inflation fell to 15-20 per cent it would increase the problems".

But Mr Yilmaz said he cannot risk his fragile coalition's survival by imposing the anti-inflation "shock programme" urged by the IMF.

Gazi Erçel, the governor of the Bank of Turkey: "IMF support is important"

ECONOMY AND POLITICS • by John Barham

Divisions slow reform

The prime minister finds it hard to bring key changes to the economy

One of Mesut Yilmaz's main problems in the few months he has been prime minister is finding and then sticking to a strategy for his ungainly minority coalition.

When he took office in June, after an army-backed campaign forced the previous Islamist-led coalition from power in a 'soft coup', he said his aim was to carry out key economic reforms before calling parliamentary elections two years early in 1998. In October Mr Yilmaz said he intended to remain in office until 2000, after unveiling a three-year programme of economic reforms to cut inflation approaching 100 per cent to 3 per cent.

He promised a "difficult winter" of austerity to cut the budget deficit, the mainspring of Turkey's inflation. Unfortunately, the cabinet soon watered down some of the most important components – a new tax system to stamp out rampant evasion and privatisation and reform of the bankrupt social security system.

The three-year anti-inflation programme failed to pass muster with the International Monetary Fund, which urged a more ambitious one-year push. This will make it hard to raise the $10bn the government wants to borrow in 1998 to support its reforms.

Weeks of conflicting statements by Mr Yilmaz and his ministers culminated in the resignation early in December of Mahfi Eğilmez, a widely respected technocrat, who as treasury undersecretary had urged tough measures against inflation.

Clearly, a coalition of three parties – two from the right and one from the left – that is 53 seats short of a majority in parliament cannot be expected to take unpleasant decisions. Mr Yilmaz said: "There is not going to be a belt-tightening that will upset the people. We do not have the necessary political conditions for a one-year programme." He described the Fund's one-year anti-inflation plan as "crazy".

After nearly six months in power, Mr Yilmaz can point to few achievements. This is particularly disappointing since he took office with such broad support and many changes were needed.

After 11 months of aimless rule by the Islamist Welfare party, Turkey's secularist majority, the powerful media, big business and the army united around the new government.

Erol Aksoy, owner of Istanbul's Iktisat Bankasi, says: "The government has nothing to fear. There is absolutely no opposition. If they convince themselves, they can do anything they like."

But strong support for the government's secularist agenda does not extend to economic reform. Analysts describe his government as another ill-fated coalition too feeble and divided to deal with the country's problems.

Turkey's influential media commentators speculate that Mr Yilmaz may have to go for early elections after all.

President Süleyman Demirel says a presidential form of government would bring more stability. "I have been president for four years and during this time I have ratified the formation of six different governments."

Mr Yilmaz may lack charisma, but he has plenty of fight in him. He has a strong team of technocrats who should be able to maintain economic stability.

Growth, powered by loose monetary policy, is likely to continue at 5-7 per cent in 1998. A deal with the IMF and World Bank may be attainable, especially if Bill Clinton, the US president, whom Mr Yilmaz is due to see next week, backs him.

Furthermore, there are few viable alternatives to his coalition in the current parliament and few pro-government MPs favour early elections. In any case, elections could hardly deliver a strong government as long as the conservatives are divided into three parties, and two parties split the centre left.

Selim Oktar, owner of Strateji-Mori, a polling company, believes Mr Yilmaz made a strategic error in focusing on economic rather than social policy.

Trying to fix the economy where so many have failed was foolhardy, he argues. Instead, the government should have followed the army's lead, which demanded that compulsory education be increased from five to eight years to strengthen the teaching of secularist values.

Improving state-run health, education and social security services would bring immediate benefits to ordinary people without the disruption caused by attempting to revamp the economy.

Turks have learned to live with inflation, but social reforms would attack the source of the Islamists' support among the dispossessed. Welfare has grown into Turkey's biggest party by promising to alleviate poverty and eliminate corruption.

Instead, the army-backed secularist establishment wants the constitutional court to ban Welfare and proscribe Necmettin Erbakan, the party's leader and former prime minister.

Officials want to close Islamist radio and television stations. The education ministry has shut down unofficial Koran courses. Even Friday sermons at mosques are controlled from Ankara.

A special working group in the high command monitors Islamist business groups and militant activity in the bureaucracy and on campuses.

Closing Welfare would further alienate opinion in the European Union, already hostile to Turkey over its human rights record, just when Ankara is pushing for a place in the EU's expansion plans to be announced at the December 12-13 Luxembourg summit.

The rise of political Islam alarms European governments, but they expect Ankara to find democratic solutions to this and other problems, such as the 13-year Kurdish insurgency. Banning the relatively moderate Welfare party would achieve little since Islamists say they will immediately open a new, possibly more radical, party.

Secularists who argue that western support is important to keep radical Islam at bay and maintain Turkey's traditional western orientation are disillusioned.

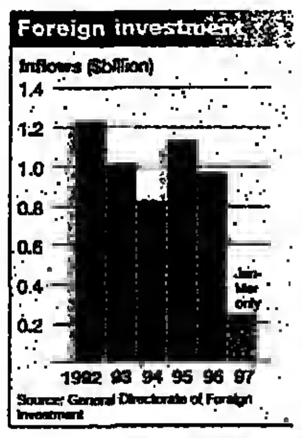
Ministers say European governments simply do not want a large Moslem country in the EU.

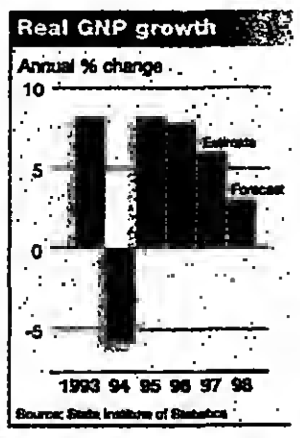
General Cevik Bir, deputy chief of staff, warns that "excluding Turkey from Europe will have an extremely high price". It would replace the Iron Curtain with a Western Curtain between the Christian and Moslem worlds.

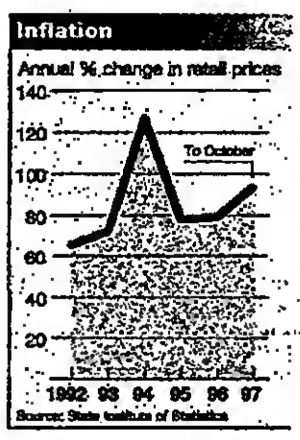
This would make management of the Balkans, the Middle East and central Asia – regions Gen Bir says are "ready to blow up" – much more difficult. Turkey itself has become a source of instability brought about by run-away inflation, deteriorating social indicators and weak government. Confrontation between the Islamists and the army would be everybody's nightmare.

The business world says the country would respond almost instantly to the smack of decisive leadership, making the turbulent 1990s a distant memory.

Mr Yilmaz is a determined and honourable man. Yet observers doubt whether he has the dynamic vision necessary to inspire the nation and they see no such leader anywhere on the political horizon.







President Demirel (right) greets Volvo's president Karl Erling AP

PRIVATISATION • by John Barham

Politics impedes path to sell-offs

The sale of public companies has become a slow, painful and halting process

Everything seemed to be going so well until Bülent Ecevit, deputy prime minister, said last month there ware certain "troublesome aspects" to recent privatisations and then called a halt to them.

Until then, the government appeared united on a privatisation strategy that would bring in $14bn-$15bn in 1997 and 1998, four times the revenues raised since Turkey first embarked on privatisation more than a decade ago. Ministers, including Mr Ecevit, had already pushed through several small deals as s warm up to the planned transfer of power stations, the telaphone network, industrial plants and ultimately four big banks.

Mr Ecevit, a veteran left winger who has shed few of his suspicions of big business, said: "A cabinet committee will investigate all privatisations. After it reaches a positive cooclusion, privatisation will continua. Some [transactions] can be stopped, some can continue." Mr Ecevit did not say what bothered him so much about the privatisstions, although members of his Democratic Left party hinted at concerns over corruption, a plague Mr Ecevit has combated all his political life.

It suddenly looked as if the privatisation programme – the centrepiece of the government's economic strategy – was in danger. The Istanbul stock market index plunged nearly 4 per cent that day.

Not all is lost. Mr Ecevit later clarified his statement. He said: "My remarks on privatisation were misunderstood in some circles. There is no question of any hesitation or slowdown in privatisation." Mesut Yilmaz, prime minister, said: "There is no decision concerning suspension of privatisations. Privatisation will continue."

Still, the incident did considerable damage to confidence that the left-rigbt coalition can reach a consensus on big privatisation deals, particularly since the cabinet has watered down other important reforms. Transactions that seemed a foregone conclusion a few weeks ago are looking qnestionable.

Mehmet Sami, senior vice president of Istanbul's ATA Securities, says the government could be hard pressed to meet half its target next year. The government still hopes to raise about $3bn from the long-delayed sale of a minority stake in Türk Telekom (TT), the monopoly fixed-line telaphone company, early next year. It also bopes to receive $1bn from two axisting mobile telephone licences, as well as another $500m from a possible third mobile licence. Long-term leases to the private sector of power stations and distribution networks should be worth another $2.5bn. The treasury hopes to sell its 13.3 per cent stake in Is Bankasi, a big commercial bank, for $600m.

In addition, the government intends to sell big industrial companies such as Erdemir, a steel mill, Tupraş Turkey's main oil refinery, Petkim a petrochemicals company and the Petrol Ofisi chain of petrol stations, bringing total sales to over $10bn. However, these companies have graced the privatisation list for a decade but still remain stubbornly in the public sector. Now, upheaval in emerging markets makes initial pnblic offerings in privatised Turkish companies even more uncertain than before.

Why does Turkey bave so much trouble with privatisation? Most countries in eastern Europe and Latin America began liberalisation long after Turkey, but have already swept most of their state companies into the private sector.

Government-owned companies still control nearly every basic industry in Turkey and quite a few minor ones too, but they are poorly managed and suffer chronic under-investment. According to official data, state-owned enterprises are profitable now, bnt they still distort the wider economy through inefficiency and erratic pricing for their products. Tupraş for instance, has set petrol prices below cost for years, forcing its sole private sector competitor to suspend production.

There is considerable support for privatisation among the people, tired of poor service and sickened by corruptioo and waste in the stata sector. But the weak, divided coalition governments that have ruled Turkey for almost a decade have failed to forge ahead. A large minority on the left and populist right has exploited these divisions to keep strategic industries within the public sector.

State enterprises are a central feature of a patronage-driven political system where jobs and contracts are in the gift of MPs and ministers. The three conservative political parties support the principle of privatisation, but at least one of them is always in opposition and works with the left to prevent the government from acting.

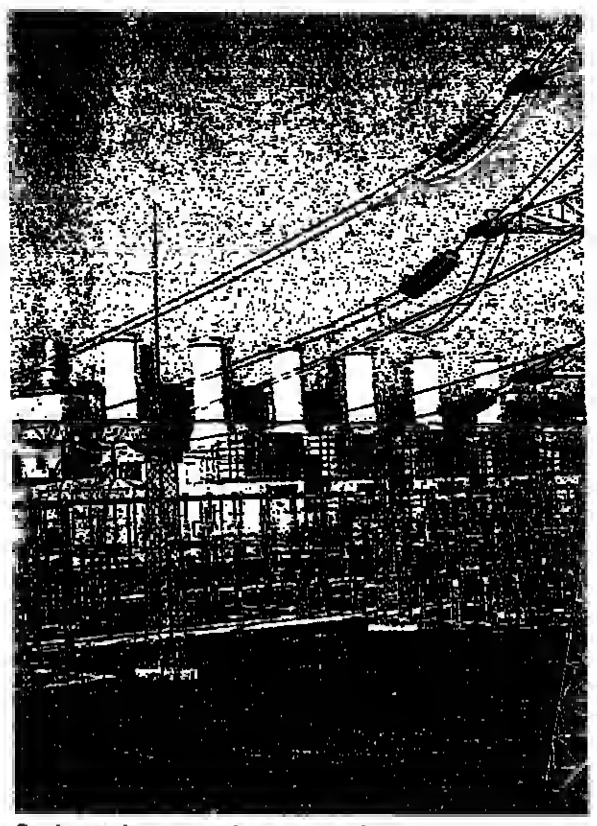
Lawyers add that governments have drafted privatisation laws badly, exposing themselves to attack in the courts. Mümtaz Soysal, a constitutional lawyer, a fervent supporter of the state's leading role in the economy and a member of Mr Ecevit's party, has successfully challenged three laws privatising TT since 1993. Although he lost s fourth case in January, Mr Soysal has delayed the company's sale for four years. The courts required the government to retain s majority in TT, and allowed 34 per cent of its shares to be sold to private investors.

Anti-privatisation activists have recently won court cases by arguing that tha 1994 privatisation law violated tbe constitution. Judges have started cancelling some $1.2bn-worth of deals carried out under that law between 1994 and 1997. It mattered little that parliament passed a new law in April rectifying the faulty legislation. Now the activists, allied with Mr Soysal, are targeting privatisations based on the new law.

And as Mr Ecevit intimated, suspicion over corruption has prevented many deals from proceeding. Public opinion, led by a vigilant media, cannot accept that profitable state companies should be sold cheaply if their future earnings do not justify premium prices.

Paradoxically, state companies listed on the Istanbul stock exchange are particularly difficult to sell, because speculation over their imminent privatisation inflates their share price. Turkisb Airlines (THY), still 98.17 per ceot owned by the state, had a market capitalisation in November of $2.16bn, far more than a private investor is likely to pay.

Privatisation is a political issoe. The 1990s have become Turkey's lost decade during which few structural reforms could take place. It is hard to see Turkey making much headway in public sector reform until it has a strong government in place.



One hour a day power cuts are expected

INFRASTRUCTURE • by John Barham

Difficult winter of blackouts ahead

Privatisation and other energy initiatives are being delayed by legal challenges

Mesut Yilmaz, the prime minister, surprised no one when he said blackouts would begin in November. Unannounced blackouts are common enough. Now, Mr Yilmaz said, scheduled cuts would become part of his promised "difficult winter" of economic austerity.

One hour a day cuts would begin in the industrialised western region, possibly rising to four hours a day and spreading to the whole country. The eoergy ministry forecasts that Turkey's power deficit will double to 6.6bn kW hours in 1998.

Mr Yilmaz is trying to deal with the problem by moving ahead witb privatisation, using s plan designed by the previous Islamist-led coalition. In October the government said it would award contracts to three consortia to build six power stations with 5,200mW capacity by 2000. This comes under a new Bnild-Operata law whicb allows privately financed infrastructure projects. The groups, which are to begin detailed negotiations, are led hy National Power of the UK, Germany's Siemens-Steag and Intergen of the US.

In November, again building oo the previous government's rules, the energy ministry opened contract talks with groups that won 20-year leases to manage eight state-owned thermal plants. Officials say they expect revennes of $1.4bn reveoue and a 28 per cent increase in output as a result of these transfers. Companies will invest $385.3m to increase the capacity of the plants. However, tha government has postponed competitive tenders for leases to manage 25 electricity distribution networks.

Turkey may still suffer power shortages bacause anergy privatisation will take time. But the government cannot afford to invest the $3bn-$4bn a year needed to meet demand which is increasing by 11 per cent a year as industry grows and household incomes rise.

Legal experts say the government fsces an nphill struggle over privatisation becanse the constitution requires the Daniştay, or administrative court, to approve, monitor and if necessary, cancel contracts allowing private companies to take over government activities. It does not allow disputes to be settled in international tribunals. This makes it difficult to raise international finance for private power projects

Gökhan Candoğan, a 26-year-old lawyer, has successfully challenged the Build-Operate law on behalf of the Chamber of Electrical Engineers, which is campaigning to keep the energy industry in the state sector. Mr Candoğan says the law violates the constitution and makes Turkey "dependent on imported [energy] to fuel the power stations.

"Foreign companies will make profits and take the money out of Turkey to their countries," he says.

Even some lawyers working for large international power companies agree with Mr Candoğan that only a constitutional amendment can prevent further legal challenges. Changing the constitution requires a two-third majority in parliament, but the government is 53 seats sbort of a simple majority.

International banks are, therefore, reluctant to lend to Turkish infrastructure projects. Many Turkish companies have set up their own natural gas-powered generators to guarantee electricity supplies. However, demand for gas already exceeds supplies, pntting investments worth millions of dollars at risk. Households are switching from gas to lignite, bringing back the smog and stench of coal fires.

In spite of these obstacles, some important privately-financed projects have gone ahead. Thames Water of the UK is building a $860m water supply project for the industrial city of Izmit. A German-led consortium is building a 672mW hydro-electric dsm costing DM2.3bn.

Innovative capital market-driven finance is svailable for infrastructure projects that generste hard currency. Swiss Bank Corporation is preparing a bond issne to raise about $240m for the private consortium building Istanbul airport's new international terminal under Build-Operate-Transfer rules. The bank bopes to win a bond rating high enough to overcome investor fears of legal challenges by channelling part of the airport's landing fees into an offshore company set up to pay bondholders. John Ferriter, depnty executive director of the International Energy Agency, says the regulatory aystem also needs revamping. He says governments have priced alectricity too low, discouraging conservation and creating shortages of capital for investment. Althongh the government wants to transfer the energy industry to the private sector, Turkey still lacks an independent regulator or coherent rules.

Even if the problems could be solved swiftly, finding enough finance for so many projects would be difficult.

TURKISH INDUSTRIALISTS' AND BUSINESSMENS' ASSOCIATION • by Robert Taylor

A force for business and for democracy

Tusiad supports political stability as necessary to thriving economic conditions

The Turkish Industrialists' and Businessmens' Association (Tusiad) is an unusual organisation for the business community, concerned as mnch with strengthening the country's democracy as it is with furthering free market economic values.

"The deepening of Turkish democracy by the liberalisation of the political system is a necessity," argues Haluk Tükel, Tusiad's aecretary-general. "The promotion of individual and collective freedoms, and respect for human rights will nurture the building of a national consensus and appears to be the precondition of political stability." —

Since its formation in 1971, this organisation has been at the forefront of the pressure for democratic change. But Mr Tukel remains dissatisfied with what has so far been accomplished. "Although all the democratic institutions are in place and elections take place regularly, relations between the legislative, executiva and judiciary powers are not properly defined, and individual and collective freedoms are not fully guaranteed under the existing 1982 constitution," he argues.

"Tha power of the state and tha central authority over-rules the rights and freedoms of the ordinary citizen," he says. "It puts important limits on the respect of human rights, questions the independence of the judiciary and endangers the secular structure of the state."

Earlier this year, Tusiad published a far-reaching report – Perspectives on Democratisation in Turkey – which set out what it would like to see happen to bring the country closer into line with western European democracies. The organisation does not play any direct role in Turkish politics, and it is aligned to no particular party. But it claims to be in line with the secular objectives of Kemal Ataturk, the founder of modern Turkey, in its call for human rights and civil liberties.

The employers association speaks out against violations of individual freedom by the security forces such as torture, arbitrary arrest and detention without trial. It campaigns for s genuinely uncensored press and television, believing a diversity of opinions should be encouraged and not suppressed. It opposes the official banning of books. It criticised the government's behaviour towards oppressed minorities like the Kurds. More recently, Tusiad – with some risk to itself – has spoken against the rise of Moslem fundamentalism, particularly the spread of religious education in the schools.

Tha organisation is a fervent champion of Turkish membership of the European Union. It recently opened an office in Brussels to further its lobbying efforts in that direction. Tusiad joined the Union of Industrial and Employers' Confederations of Europe (UNICE) back in 1987. As a key part of a dynamic European strategy, the organisation calla for greater integration of Turkey into Europe.

"It is not by increased co-operation with countries less-developed than itself but by increased co-operation with developed countries that Turkey can accelerate its economic growth thereby gaining the competitive impetus required for the 21st century," Tusiad'a board of directors declared earlier this year.

The signing of the customs union agreement in December 1995 between Turkey and the EU strengthened the organisation's determination to press for further steps in a European direction. By adopting to the European democratic model, Turkey can best further its economic interests of stability and growth, tha organisation argues. This requires, it believes, the creation of what it calls an "optimal state", where the central government restricts its function to a limited number of areas. These are external and internal security, diplomacy, justice, judiciary and administrative services.

Most goods and services should be supplied by the competitive private sector. Education, health, public works, and environmental protection should be delegated to local councils. Tusiad wants to see an end to what it believes are the corporatist and corrupt ways of the current political order. This would involve much greater transparency in decision-making as well the iegal right to freedom of information. The organisation favours legislative action to improve ethical practices in public administration. It wants to see promotion in the government service based on merit rather than seniority and favours which encourages nepotism and cronyism.

Tusiad's ideal state would be "small but efficient". The organisation is highly critical of what it sees as mistaken, populist economic policies pursued by recent governments. It calls for a medium-term stabilisation programme that would involve independence for the central bank, a restructuring of the public sector, a reform of the tax and social security system, a strengthening of the country's financial institutions, privatisation of state corporations and measures to encourage a more flexible labour market.

The organisation dislikes what it regards as the irresponsibility of governments in their management of the public sector deficit. Above all, Mr Tukei and his colleagues are opposed to the way in which Turkish politics distorts the economy. As Tusiad's recent economic perspectives for next year explains: "A possible early general election in 1998 makes it difficult for the government to implement policies that would produce lasting solutions to the country's structural probiems as these same policies would also bring about politically undesirable side-effects such as the slowdown of economic growth and the increase of unemployment."

In Tusiad's opinion, political instability inhibits the impiementation of much-needed reforms. There have been 10 different governments over the past 10 years.

Tusiad is keen to encourage trade unions and backs freedom of association and collective bargaining. Its ieaders look approvingly to the social market consensual approach in Germany. They favour forming aiiiances with organised labour to develop common policies that wouid encourage greater economic openness and competitiveness.

In its early years, Tusiad sought to shape opinion by functioning mainiy as an intellectual think-tank. Now it would like to become a more sophisticated and comprehensive organisation that can lobby the Turkisb political establishment and iegislature with its liberalising agenda.

"Our members support us in what we are advocating," says Mr Tukel. "So does the silent majority of the Turkisb people. Everybody complains about our political, economic and judiciai systems. Nobody is happy with them. There is a gathering momentum for structural change."

But his organisation seems rather isolated from the volatile mainstream. Its future influence wiii depend on the extent to which western Europe and the US adjust to wbat Turkey is demanding. Any shift in Turkish strategy to cioser affinity with developments in the Middle East ur central Asia could sideline the employers association and undermine its admirable commitment to both political and economic liberalism.

TUSIAD says that through co-operation with developed countries, Turkey can accelarate its economic growth AP

FOREIGN INVESTMENT • by Robert Taylor

Optimism is high

Over the past 15 years, successiva governments have relaxed the rigours of economic nationalism and abolished many of tha obstacles that used to handicap open international trade in Turkey. Now that the country has established a customs union with the European Union and seeks eventual EU membership, further moves may be expected in opening up the economy to outside influences, though this remains a highly controversial development.

But large foreign-owned companies thrive in Turkey, and their experiences suggest that whatever impediments still remain to industrial expansion, they are not sufficient to dampen down foreign optimism. "When they first arrive bere foreign businessmen say they find it difficult to work bere but they soon become satisfied," says Yoyuz Yavuz Zeytinoglu, owner of the Esbank and the general secretary of Turkey's Foreign Economic Relations Board.

Ericsson Telecommunications

Looking forward to privatisation and providing effective technology to Turkey and beyond

The forthcoming liberalisation and privatisation of parts of the country's telecommunications network comes at an apt moment for Swedish-owned blue-chip company, Ericsson Telecommunications. The company has enjoyed a long business presence in Turkey – before the end of the Ottoman empire, it installed a telephone line in Dolmabahce palace in Constantinople. In 1925, a telephone system was introduced in Izmir, and the company responsible became Ericsson Turk, Turkey's first 100 per cent foreign-owned company.

Up until the 1960s, Ericsson was the leading supplier of equipment to the Turkish telecommunications service. It was in 1986 that the company formed a subsidiary – Ericsson Telekomunikasyon AS, to represent its interests in the country.

The most recent development for Ericsson has been the introduction of the cellular mobile telephone system through the creation in 1993 of a new company – Turkcell – with Ericsson's Turkish subsidiary as a founder member. The Swedish company is serving most of the country'a rapidly growing mobile telephone market, which is being installed for Turkcell.

Johann Bruce, Ericsson'a general manager in Istanbul, is looking forward to tha conversion next year of a revenne sharing agreement with the government into a formal operating licence for its mobile phone service. "This move will provide Turkcell with the commercial freedom it badly needs."

It is still hoped that tha government will go ahead with the sell-off of a minority stake in Turk Telekom (TT) early next year, and this may also prova beneficial for Ericsson's development in the country. In 1995, Ericsson helped to establish a new company – Ericsson Cukurova Telekom AS. The new company has started to manufacture exchange and transmission systems from its plant in Ankara, which opened this year.

"Ericsson is dedicated to bring to Turkey the world's most effective technoiogy with the specific aim of improving the country's communications and living standards," says Mr Bruce. "This commitment goes far beyond the sale and distribution of our products. We are also actively transferring the company'a technology into the country through on-the-job opportunities as well as nstional and international training programmes."

Mr Bruce is used to a highly poiitical environment. Still, it often proves time-consuming and exasperating. He is impressed, however, by the country's private entrepreneurship. "There is enormous business potential," he says.

But Mr Bruce's concerns go beyond the borders of Turkey. He is using Ericsson's Istanbul basa to develop projects in not only Azerbaijan and Georgia.

The telecommunications market is set to grow strongly

Honda

The initial target for the automobile company is the vast potential domestic car market

Suleyman Demirel, Turkey's president, presided over last month's grand opening of a huge Honda auto plant on the outskirts of Istanbul. The Japanese motor company has given an impressive vote of confidence to the Turkish economy with this development.

Honda's new operation is the largest of its kind in Europe outside the UK. It is being developed in local partnership with the Anadoln industrial conglomerate, which also has a joint venture with Isuzu.

Honda is building up its manufacturing production presence in Turkey to complement its sales distribution effort. "This is very much a step by step process," says Yusuf Soner, the group's marketing manager. Oniy 300 workers will be employed to start with, constructing the Civic model.

The Japanese management seems pleased with performance so far, but is moving with caution.

"The increasingly competitive domestic market is our first aim," says Mr Soner. He believes there is scope for increased growth in domestic car ownership in Turkey, up to a figure of 4m sales a year. Otber foreign rivals such as Opel, Hyundai, Ford, Renault and Fiat bave established partnerships in Turkey. But the vast area amounting to 1m square metres occupied by the super new Honda plant on rolling barren hillside just outside Istanbul suggests the company is leaving plenty of space to grow.

There is little sign of high technology equipment in the plant at the moment. Robots are few in number. Honda intends to make manufacture relatively labour-intensive for the moment, building up a cadre of highly skilled workers. Some have been on training courses to Indonesia and Thailand as part of the company's initiatioo programme.

Lyonnaise des Eaux

Partnerships with local companies have provided the introduction and information needed

The world's leading water distribution company has been active in Turkey for a number of years through the activities of its water engineering subsidiary, Degremont.

"You need a lot of patience and years of experience, but Turkey is a challenging place to do business," says Mr Pedrini, who heads the company's Istanbul office, which opened in September 1995.

Last October, Lyonnaise des Eaux established an important joint venture with a Turkish construction company called Enka Insaat under the trading name of Antsu. The French company holds a 50 per cent share.

The new business organisation has been given responsibility by the Greater Antalya municipal council to manage and maintain its water and sewerage operations for the next 10 years.

The company will also deal with customer billing, asset records and control of the water quality. It has also been given responsibility for the renewal and extension of water and sewerage networks.

The financing for the project is coming from the World Bank and the European Investment Bank. "This is a unique project," says Mr Pedrini. "It is clear, rapid and transparent."

His company's involvement was vital in establishing the necessary international financial backing. This amounts to £200m over the next seven years.

Lyonnaise des Eaux sees this project as just the beginning. It is the first privatised service of its kind in the country.

Mr Pedrini admits that foreign companies still find securing concessions a "sensitive" business. It works best when they operate in partnership or strategic alliance with an established Turkish enterprise.

Existing company law ensures that a partnership is the most effective means of developing foreign investment schemes.

This is because any such corporation is treated as if it were a purely Turkish company and therefore entitled to all rights open to enterprises covered by the country's commercial code.

However, Mr Pedrini says the local Istanbul business community is "very international nowadays".

"There is a confidence in the long term here that offsets the risks," Mr Pedrini says.

Certainly Turkey's need for the substantial development of its water and sewerage systems should provide Lyonnaise des Eaux with plenty of commercial opportunities in the years ahead.

The company is hoping that if the Antalya venture proves a success, further deals will be made with local companies.

Cities like Istanbul and Izmir may look favourably at sucb private/public ventures to improve the management and quality of their creaking water and sewage systems in the interests of consumers.

Coopers and Lybrand

Business can be profitable if there is no need to borrow, say company representatives

The activities of business consultants Coopers and Lybrand in Turkey reflect tbe increasing interest among Turkish employers in developing a more professional approach to management. Chris Hall, who heads the company's Istanbul office, admits doing business in Turkey can be "very bureaucratic".

"You can spend a lot of time form-filling in government offices," he admits. The country's high inflation rate can also pose a problem. "It takes time to learn cash management," he says. "But as long as you don't have to borrow, then doing business can be profitable."

However, Mr Hall – like other foreigners at work in Turkey – is impressed by the emergence of a young cadre of local management who are better qualified and have a wider, more sophisticated understanding of the outside world than their predecessors.

"Thay show more initiative, flexibility and entrepreneurial spirit," ha says. However, Mr Hall is painfully aware of the country's widespread "corruption", which can be a constant headache. "It is quite widespread," he points out. "People use their influences and connections."

Again, he blames the sprawling and inefficient state sector for much of this. Mr Hall also points to the country's sizeabla, if unquantifiable, black market economy as an added consideration. But he adds that Turkey retains positive benefits for business.

Coopera and Lybrand argue in their recent guide to businesamen who are looking at the country for possible expansion: "Turkey presents the investor with enormous opportunities not only in its large domestic market but also because of its geographical position throughout the region."

It continues: "In particular, Turkey is increasingly seen as a bridgehead to develop business eastward, not least because of stronger economic ties with Europe."

"The country has a pientiful supply of unskilled and semi-skilled workers, but their wages are competitive," says Mr Hall. More importantly, government-funded training programmes have helped to increase the number of employees with marketable skills.

Cooper & Lybrand employ 125 staff in Turkey to assist companies in expanding and improving their performance with anditing, corporate finance and consultancy services. Mr Hall is optimistic about the immediate future – as long as Turkey moves ever closer to the rest of Europe.

"However, there does remain a risk if the country starts looking more to the east rather than west," he admits, refering to Turkey's Islamic fundamentalist and nationalist forces, which remain hostile to any developments that increase the foreign presence in Turkey's business affairs.

ISTANBUL • by Robert Taylor

Where many paths and traditions meet

East and west, old and new, Moslem and secular – all merge in Turkey's most famous city

Istanbul must be one of the most exciting cities in the world to do business in. Since the fall of the Soviet empire, it has become the primary entry point for central Asia and the Balkans.

Along the narrow cobbled streets close to the Golden Horn and in the city's Grand Bazaar, you can find hundreds of sellers and buyers haggling over jeans, suits, shoes, shirts and carpets. As Philip Mansel has written in his history of the city since its capture by the Ottomans in 1453*: "At once Moslem and secular, Asian and European, traditional and modern, Istanbul is again, as in its Ottoman past, a cross-roads of the world."

Istanbul and its hinterland are rapidly becoming the largest urban conurbation in Europe. Its population has grown at a dramatic rate in recent years – from 3m in 1970 to more than 10m – and there are no signs of a slowdown in the numbers moving to the city.

The arrival of families, mainly from the rural areas of barren Anatolia, in search of employment and prosperity threatens to undermine Istanbul's fragile and over-stretched infrastructure. To the poor from mainland Asia, the city is indeed regarded as an "El Dorado of hope and promise". Those who have lived there for generations, however, are overwhelmed.

Beyond the tourist attractions, mostly around the old city, lies another Istanbul. Here the city stretches for miles and is made up of featureless suburbs of concrete flat blocks that sprawl on both sides of the Bosporus. Their monotony is broken only by shining minarets and mosques.

More than 2m people in the city are believed to be living without immediate access to available running water. The installation of sewage systems, let alone tarmaced roads, electricity and gas, lie far behind the demands being placed on the city by its uncontrollable population explosion. The waters of Istanbul, even the Sea of Marmara, are heavily polluted by chemical discharges, mainly from the local leather and tanning industries.

In his new book, *The Turkish Labyrinth***, James Pettifer writes that modern Istanbul is "a city of the poor, only saved from utter destitution by cheap, good quality, plentiful Turkish food and low housing costs in the slums". Mr Mansel describes Istanbul as a city whose expansion is "out of control" and in that way comparable to Mexico City and Cairo.

Certainly, as in those cities, air pollution has become a serious health hazard. The traffic densities have reduced areas of Istanbul to an almost permanent gridlock. It is essential for people doing business in the city to provide themselves with plenty of time between appointments to get from one part of the city to another.

Despite the rise of the symbols of Islamic fundamentalism, for the visitor from the west who is on business or holiday, Istanbul remains a highly complex, diverse, bustling city. The Pera Palace Hotel still stands almost frozen in time with its ornate lift, stylish coffee shop, and tasteful, old-fashioned dining room.

This is the place where Graham Greene wrote *Stamboul Train* and Agatha Christie *Murder on The Orient Express*. Kim Philby, the master spy, was a regular frequenter of the bar. With the help of Turkish government money, the hotel provides a nostalgic and elegant glimpse of what is becoming a lost world.

Today the real Istanbul is perhaps better reflected in the innumerable fish restaurants along the waterfront on the Asian side of the Bosporous. Here men with bristling moustaches play cards and drink raki beneath the ever-present portrait of Ataturk, the scourge of Istanbul who moved the Turkish capital to Ankara in 1923 as a gesture of the country's clear break with its supposedly decadent Ottoman past.

The city is the commercial heart of modern Turkey, where its banks and finance houses dominate. It also has a strong industrial base. But Istanbul remains an understandably powerful attraction for those in search of leisure. Tourists still flock to the city's incomparable and majestic Byzantine and Ottoman heritage, to the Blue Mosque and to Hagia Sophia, built 900 years before the arrival of the Ottomans by the Roman emperor Justinian.

The churches and mosques sit cheek by jowl and reflect the overlapping influences of east and west on the city's heritage. Parts of the sturdy walls protecting the city that was Constantinople in Byzantine times still remain, particularly striking beside the Sea of Marmara.

Modern tourism carries its destructive features, however. On the popular boat ride to the Black Sea along the Bosporus, the skyline of Istanbul is pock-marked with unsightly luxury hotels and skyscraper office buildings. Construction sites suggest a permanent change in the landscape of the city that is not for the good.

Mr Mansel argues that the city cannot hope to survive if it continues to grow at its present hectic pace. In his view: "The greatest enemy of Istanbul has proved to be neither Greece nor Russia nor the Allies but its own inhabitants."

And yet Istanbul has survived so many disasters over the centuries, it is hard to believe the degradations of modernity are going to destroy it. Just when the city seems to be heading for oblivion, it revives.

The Russians are back now, bringing with them an insatiable appetite to buy and sell. The Balkans are no longer cut off by ideology with the collapse of Soviet Communism, so Bulgaria and Romania are again open to Turkish influence. The Greeks may have almost all gone – victims of century-old rivalries and hatreds – and the Armenians are no longer the force they used to be in the city. But the presence of Kurds, and with them the concern for urban terrorism, has heightened the need for security in the business community.

The endless fascination for Istanbul lies in its labyrinthine sense of identity, and this seems unlikely to be resolved one way or the other.

**Constantinople: City of the World's Desires by Philip Mansel, Penguin Books 1997 £9.99*
***The Turkish Labyrinth: Ataturk and The New Islam by James Pettifer, Viking 1997, £18.00*

TURKEY

A friendly welcome

While in Turkey, these tips can prove useful and lead to a more pleasant stay for foreign visitors:

● VISAS: Business visitors and tourists from most countries including the EU, the US, Japan and Canada need visas. These can be obtained on arrival at the airport, and cost £10 for three months. Immigration and customs officials can be arrogant and difficult, but they do not represent the Turkish people, who are courteous and friendly – sometimes overwhelmingly so.

● MONEY: It is not wise to change large amounts of hard currency into Turkish lira. This is because you will be given a brick of banknotes – the largest denomination note is 5m lira, worth $25 – that is bulky to carry about and loses value by the day. International credit cards are widely accepted in the big cities even for small purchases. ATMs are abundant; foreign travellers can use them to withdraw cash quickly and easily.

● TAXIS: Cabs infest every corner of the city – you will never have to wait long for one to appear. Short rides are cheap – you pay the amount shown on the meter (but make sure the driver has not switched it to the more expensive night rate). However, Istanbul is a big city, and traffic can move slowly, and a ride to far flung areas can add up. Be sure to leave plenty of time between meetings – 30 minutes is the minimum unless the sites are within walking distance of each other. Unless your destination is well known or close to a famous landmark, you should take a sketch map with you to show the driver, many of whom are recent arrivals and barely know the city. Drivers tend to be honest, but count your change.

● SECURITY: Istanbul is safer than most European cities. Although mugging is rare, it is unwise to tempt fate. Apply the same rules as you would in most big cities and you should be perfectly safe.

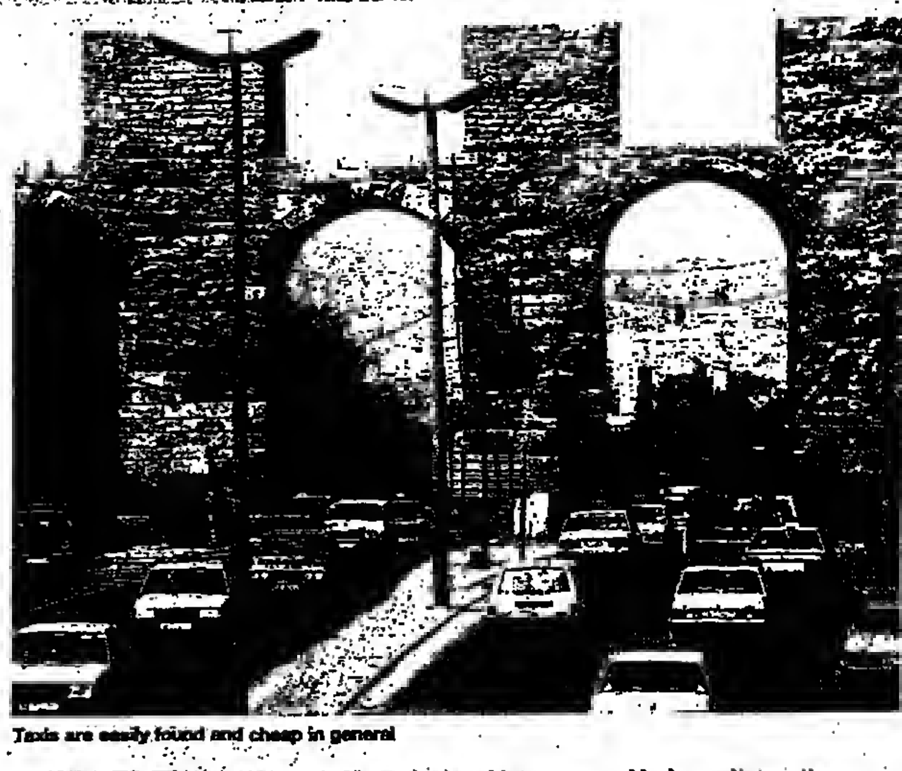
● TIPPING: As a rule, leave a 10 per cent tip at a restaurant. If service is poor, you can always leave less or even nothing at all. Tips should be left in cash, since credit card slips in Turkey do not leave a space for gratuities.

● SMOKING: Non-smokers are a despised minority and little attempt is made to enforce supposedly strict no-smoking rules. Be ready to be gassed by smoke from pungent Turkish cigarettes in restaurants, bars and public places.

● HOURS: Shops and offices open from about 8.30-9 a.m. until early evening. Although Turkey is a Moslem country, it observes the same five-day working week as the west. However, beware the holy month of Ramadan, which begins on 1 January next year. Moslems fast and abstain from smoking from dawn to dusk. Foreigners are not expected to observe these prohibitions, but it would be wise to enquire if your Turkish guests observe Ramadan – not all secular Turks do – before inviting them to lunch. The working day is cut short as people leave the office before dusk to rush home for the ritual fast-breaking meal.

● LANGUAGE: Turkish is not an easy language to pick up on a quick visit, although Turks will always appreciate efforts to speak a few basic phrases. Buy a phrase book and practice on the airplane. Turkey uses a modified Latin alphabet and spelling is entirely phonetic.

Confusingly, the letter C is pronounced as a J - so cadde, avenue, is pronounced jadde. The profusion of umlauts, crescents and cedillas can overwhelm. Vowels with umlauts are pronounced as in German. The cedilla on a C changes it to the English ch, as in change. Tansu Çiller, the former prime minister, pronounces her surname Chiller. A cedilla on an S becomes the English sh, as in shine. A G with a crescent on top is pronounced like a long O – Boğaz is pronounced something like Bo-oh-az.



Taxis are easily found and cheap in general

● CLIMATE: Winters are rigorous, particularly from January to March. Come well-equipped to resist snow and ice. Summers are hot and humid. In compensation, the autumn and early winter (September to November) and late spring, early summer (April-May) are mild. If you can, time your visit to coincide with these seasons.

● DON'TS: Never, ever ridicule or insult Kemal Ataturk, the army, the Moslem religion, the Turkish flag or the Turkish people. Not only would this be bad manners, but you risk severe physical harm and a possible jail sentence. Avoid discussing the Kurdish question.

REGIONAL DEVELOPMENT • by Robert Taylor

Global markets beckon for old weaving centre

The textile town, Denizli, has fashioned a link between past and present

Amidst the rugged mountains of western Anatolia, Denizli sits as one of the success stories of recent Turkish industrial modernisation. It serves as a showcase for the country's regional development. The town and its hinterland is often described as the rising star of the Aegean region, lying at the core of the country's thriving weaving and clothing sector. The area is undergoing rapid change as its larger textile companies adapt with the help of substantial investment programmes to meet the competitive challenge of globalisation.

On the outskirts of Denizli, along the main road leading into the town from the local airport, vast new factories are being constructed for a growing number of local and expanding clothing companies, which specialise in the manufacture of towels, sheets and garments. In the past, the town was concerned predominantly with the growing domestic market for such goods. Now many of the larger companies are also looking for opportunities abroad – to the lucrative but demanding consumer outlets of western Europe and the US.

The expansion into global markets with its niche textile products is only a relatively recent development, helped by bank support and state encouragement. But Denizli's history as a weaving centre goes back more than 1,000 years. Up to 1th 1950s, its textiles were mostly produced by hand. It was only in the *1970s* – with positive assistance from the state to large investors as part of the Ankara government's development strategy for the regions – that large investments began to be made in the town's textile enterprises.

As many as 60,000 people are employed today in the Denizli textile industry, many of them having been integrated into the production process from the villages where they live and carry out traditional ways of weaving. One Turkish economist argues that there has been an effective diffusion of technology and the use of modern machinery in the local market from the large textile producers to household producers.

"The division of labour still requires woman and children to perform shaping and finishing tasks and detailed labour-intensive jobs while men tend weaving machines and deal with outside markets and business partners," he explains.

But the large companies reflect an impressive professionalism. A new breed of outward-looking Turkish entrepreneur can be found in them. At Nesa Textiles, for example, Suleyman Kocesert is the company's 26-year-old marketing manager with an MBA from Izmir University and fluency in three foreign languages.

"You in western Europe will have to watch out, the Anatolian tiger is coming," he says.

Nesa has undergone a substantial investment programme over recent years valued at up to $5m. This has been mainly concentrated on the acquisition of imported high technology machinery to weave, dye and prepare the bath towels and gowns they specialise in. The machines come mainly from Italy, Germany and Switzerland. The company's chief overseas customers are large retail consortia such as J.C. Penney and Sears in the US, and the House of Fraser, Littlewoods and Debenhams in the UK. The company employs about 500 workers, mainly young people; the average age is 19. It is sensitive to the wide demand in Denizli for skilled labour in the textile sector. This is why, in an effort to attract the right kind of employees, the company is providing a range of facilities, including a free cafeteria, and nursery and health services. There is even a place where the *faithful can pray*.

Despite Turkey's high inflation, Nesa says it has no problem on pricing with its main retail customers in the US and the UK. Mr Kocesert insists the company is concerned to focus its production on the high quality, high value end of the market. He points out a place like Denizli can no longer compete with countries like Pakistan and Indonesia where prices are far lower. The working conditions at the company's new plant look remarkably spacious. There may be no trade union on the premises but there are no outward signs that Nesa is in breach of any core labour standards.

Ozan Textiles, established in 1972 in downtown Denizli, moved into the export business 10 years after opening, and it too specialises in the production of towels and bath robes. Today it employs around 1,200 workers, most of them women under 20 years of age. But the company has also invested in up-to-date textile machinery from Italy, Germany and the US, and it is expanding its current facilities to meet demand.

> Denizli has a history as a weaving centre of over a thousand years

Denizli's entrepreneurs have been successful in integrating their textile production into the global market through distribution via the ports of Izmir and Istanbul.

The city is replacing Bursa as the national market for cotton goods as Bursa moves into silk production.

Contrary to first appearances, Denizli is not dominated by large companies but small family-owned businesses. The latest figures indicate that as many as 4,849 manufacturing enterprises employ fewer than nine workers each, and most have no more than three. These smaller family-owned companies lack the high levels of technological investment of the larger ones. Moreover, the labour force in them remains largely semi-skilled and often hired as unregistered temporary workers. What machinery is being acquired comes predominantly from former Communist countries such as east Germany and the Czech Republic.

A local economist argues Denizli should be seen as part of a local economy that has so far been only "semi-integrated" into global markets. He believes the town has not experienced an industrial miracle based on high-tech post-modern development but enjoyed the prudent benefits of incremental growth. In his opinion, the highly centralised nature of financial and political power in Turkey makes it difficult for towns like Denizli to develop a self-confident autonomy.

"Turkish small and medium-sized enterprises as a whole in medium-sized cities share similar structural bottlenecks," he says. "These [suffer] low capital investment, old technology and managerial insufficiency."

But the Denizli experience suggests this may be changing for the better. Thirty years ago, migrant workers left the Denizli region in search of work in the factories and low-paid services sector in Germany and parts of northern Europe. But such an exodus is over. Now people are coming to Denizli for jobs. Turkish association with the European Union will help this process of change.

The importance of Denizli is to show what can be achieved through the use of indigenous capital and local networks of family entrepreneurial activity. It also exemplifies a shift away of industrial power from the over-mighty lure of Istanbul.

"To be integrated into competitive world markets requires better education, infrastructure and organisation," says the economist. "This is why it is crucial to share the fruits of wealth at local level through better schools and infrastructure."

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INSIDE

Bright future for Colombian coal

Coal is now Colombia's third most important export – after oil and coffee – with earnings last year of $871m. New areas have been opened to foreign companies, and production is set to increase dramatically. But to develop its coal resources fully, the country must improve inadequate railway and port infrastructure. Page 26

Investors shun Zimbabwe

Zimbabwe was one of the best performers in the emerging markets sector in 1996, soaring 92.5 per cent, but it has fallen 13 per cent since the beginning of December. Continued fears about a deepening political crisis, government mismanagement of the economy and worries about the weather are to blame. Page 36

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
Brau Und Bru	169.5	+	11.5	Court D'Assur	713	+	63
Fresenius Med	119.5	+	5.5	GLM	254.6	+	23.6
Herlitz	115	+	8.2	Kali-St	720	+	38
Falls				Sommer-All	210.1	+	10.6
Duerr	54.5	–	6.2	**Falls**			
Einbell	21.5	–	2.5	Grand Bazar	137	–	22.5
Leica Camera	30.5	–	4.0	Locafa	58.4	–	13.6
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Vodafone	68¼	+	⅝	Amada	545	+	20
Falls				Ezaki Glico	869	+	19
Arrow Elct	32⅝	–	2¾	**Falls**			
Chase Mnht	109⅜	–	3¾	Calsonic	560	–	20
Dallas Semi	39¾	–	1¾	IHI	235	–	15
Eaton	93	–	1½	NKK	110	–	6
Noble Drl	30⅜	–	1½	UBE Inds	190	–	16
LONDON (Pence)				**HONG KONG (HK$)**			
Rises				**Rises**			
BP	29½	+	5½	China Tele	13.05	+	0.15
Pleamac	225	+	40	Cross-Har	13.2	+	0.10
Triplex Lloyd	263½	+	34	**Falls**			
Falls				Amoy Props	6.55	–	0.30
Argos	578½	–	10	Cheung Kong	60.75	–	2.25
Harvey Nichols	183	–	23½	China Light	38.7	–	1.4
Railtrack	943	–	53	New World	27.5	–	2.4
TORONTO (C$)				**BANGKOK (Baht)**			
Rises				**Rises**			
Gsac Cap	40.75	+	2.35	Bangkok Dus	13	+	1.75
Falls				Dusit Thani F	32	+	3.75
BCE	46.6	–	1.15	Hana Micro	95	+	1.5
Cameco	48.6	–	1.15	**Falls**			
Can Pacific	40.1	–	1.15	Asia Secs	12.5	–	1.5
Inmet	5.7	–	0.45	Kang Yong	33	–	2
UCorp	50.5	–	1.25	Nava	10	–	1.2

New York & Toronto prices at 12.30.

Market Statistics http://www.FT.com

Dickson Concepts sees profits dip

Consumer confidence hit by Asian crises

By John Ridding in Hong Kong

The sharp downturn in Asia's luxury goods consumption was underlined yesterday when Dickson Concepts, tha fast-rising retailer, warned that the financial crises sweeping the region would hit profits this year.

The warning came as the Hong Kong-based group announced operating profits of HK$278m ($36m) for the six months to the end of September – a slight increase over the corresponding period last year.

However, Dickson Concepts said consumer confidence had been "seriously undermined" and cited a "sharp deterioration" in the retail climate. "If auch market conditions continue for the full year, profits will not achieve the levels of the previous year," it said.

Net profits fell sharply in tha first half, declining from HK$833m to HK$196m, reflecting the exceptional profits of HK$644m recorded last year that resulted from the flotation of a stake in Harvsy Nichols, the UK department store. Profits at Harvay Nichols rose from £5.5m ($9.07m) to £6.1m, but low sales growth and predictions of big discounts in January prompted a sharp fall in shares, which lost 23½p to 193p.

Dickson Concepts, which includes brands such as Ralph Lauren and Bulgari within its portfolio, signalled that some divisions would be particularly vulnerable to the downturn. S.T. Dupont, the Paris-listed subsidiary, which specialises in pens and lighters, could see "a substantial decline in profits" should the slowdown in Asian activity continue.

In spite of the warnings, the group expressed confidence in its prospects, citing its financial strength and its strong recnrring income. Cash reserves exceed HK$1bn, while the regional economic turmoil should provide attractive investment opportunities, the company said.

The company made no reference to its bid to secure control of Barney's, the upmarket US retail company, which is under bankruptcy protection. Although an accord wss reached earlier this year in which Dickson Concepts would take control of the US group, DFS, the San Francisco-based retailer, recently announced it was also considering making a bid for Barney's.

The Barney's deal would give Dickson Concepts a foothold in all the main international retail markets, making the group, which is headed by Dickson Poon, the first multinational Asian retailer.

The group said it would restructure its mainland China operations as part of a review designed to improve investment returns. The restructuring will include relocating the Chinese wholesale operations to Hong Kong, while focusing on its retail businesses in Shanghai, Beijing and Shenzhen.

Turnover in the first half climbed from HK$2.27bn to HK$2.58bn. Excluding the exceptional gain from the flotation of Harvey Nichols, earnings per share climbed from 70.35 cents to 73.17 cents. The dividend was held at 30 cents, although there was e 6 cent special dividend in the first six months of 1996.

Company chief Dickson Poon

Brazilian go-ahead for link-up by brewers

By Jonathan Wheatley in São Paulo

Brazil's anti-trust authorities have approved a joint venture between Anheuser-Busch of the US, the world's biggest brewer, and Antarctica, Brazil's second-biggest, provided the companies pledge to invest $1bn over the next five years.

This reverses a ruling in July that the companies dissolve their alliance within two years. The decision has strong implications for an appeal by Miller Brewing of the US and Brahma of Brazil, the world's third and fifth-biggest brewers respectively, against a decision in June ordering them to end a similar alliance.

Jack Purnell, chief executive of Anheuser-Busch International, said the company would "study the terms of the decision to determine if they are acceptable" once the ruling was published in full.

Cade, one of three competition watchdogs in Brazil, said it changed its ruling after the agreement between the two companies, reached in February 1995, was altered.

The alliance would he allowed until 2022 as long as Anheuser-Busch increased its stake in Antarctica from 5 per cent to 29.7 per cent by 2002 et a cost of $476m. The money would form part of a five-year investment plan totalling $1.06bn.

A lawyer active in the industry said Cade's decision was "judicial nonsense" and amounted to demanding a "toll" of Anheuser-Busch in exchange for permission to operate in Brazil.

A Cade official said the new arrangement implied a greater commitment hy Anheuser-Busch to the Brazilian market.

Cade said the ruling had also been influenced by the companies' decision to market Budweiser in 600ml re-usable bottles, which account for about 80 per cent of the Brazilian market. It had objected to the companies' original plan to sell Budweiser in 350ml bottles regarding that as an attempt to avoid competition with most beers sold in bigger bottles.

Antarctica said the decision to sell Budweiser in 600ml bottles was based entirely on market considerations.

Cade, widely criticised over its original ruling, has come under pressure to reverse it.

"Competition will be strengthened by the new arrangement, bnt the decision also reflects Cade's desire to find a way of approving the deal," said Carlos Yamashita of Lafis, a firm of analysts in São Paulo.

Publishing merger plan probed by Brussels

By Neil Buckley in Brussels and John Gapper in London

The European Commission has opened an in-depth investigation into the planned merger of Reed Elsevier and Wolters Klnwer amid "serious concerns" about the impact of the merger on competition in the publishing sectors of several European Union states.

After an initial one-month inquiry, the Commission is concerned the merged group could have a dominant position in taxation and legal publishing around the world, as well as in some other sectors.

The formal announcement of a detailed four-month inquiry is expected to name the UK and the Netherlands among markets that could be affected. The merger, scheduled for approval by shareholders in April, would bring together the operating companies of Reed International of the UK, and Elsevier and Wolters Kluwer in the Netherlands, creating one of the strongest specialist information groups in the world.

The Commission has opened an initial inquiry into the planned merger of Coopers & Lybrand and Price Waterbouse, which would produce an accounting group with annual revenues of more than $13bn.

About 10 per cent of merger cases scrutinised by Brussels go to second-stage investigations. Officials auggest both the Coopers/Price Waterhouse case, and the planned merger of Ernst & Young and KPMG may trigger detailed probes because of their size and complexity, and the involvement of four of the world's top six accountancy firms.

With Reed Elsevier and Wolters Kluwer, the Commission wants to investigate more deeply the possible impact of the merger on ths development of electronic publishing.

This is seen as an important growth market, particularly for the professional publishing in which ths companies are active. Analysts have suggested that Wolters Kluwer would gain from Reed Elsevier's electronic distribution.

The merger of Reed Elsevier and Wolters Kluwer would create a group with strong positions in several categories of professional information in Europe and the US. Shares in the companies have risen since its announcement.

Brussels has four months to approve the merger or demand changes.The deadlins might be extended to early May because of Christmas.

Drop in branded footwear sales 'likely to continue into 1998'

Reebok shares tumble after warning of earnings slide

By Victoria Griffith in Boston

Shares in Reebok fell hy more than 10 per cent in early trading yesterday after management downgraded earnings estimates for the 1997 fiscal year.

Tha sportswear company blamed a drop in retail sales of branded footwear and said the malaise was likely to continue well into 1998. At midday, Reebok's stock was trading at $29.50 compared with Wednesday's close of $32.81.

The company said it would restructure contracts with suppliers and distributors and increase spending on promotional sponsorships with sport stars to boost performance.

Competition between sportswear companies for high profile sponsorship business has become fierce. Nike, Reebok's main competitor, has lately been gaining the edge.

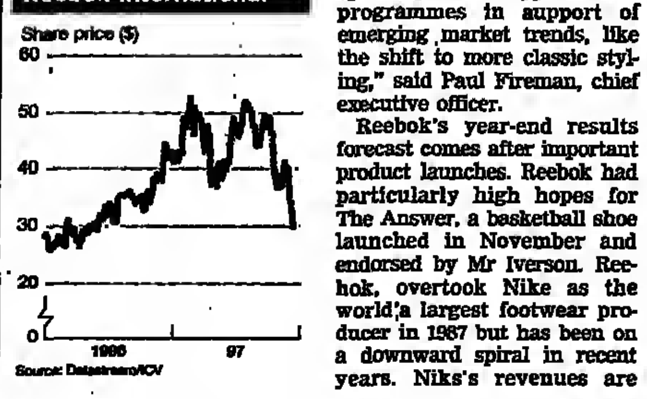
Reebok's signings of tennis players such as Michael Chang and Patrick Rafter and basketball stars Shawn Kemp and Allen Iverson are overshadowed hy Nike's deals with basketball player Michael Jordan and golfer Tiger Woods. Nike spends $1bn a year on sports star sponsorship compared with Reebok's $400m.

Reebok also said it would try to tap into fashion trends in a bid to boost consumer interest. "We will allocate additional spending toward opportunistic programmes in aupport of emerging market trends, like the shift to more classic styling," said Paul Fireman, chief executive officer.

Reebok's year-end results forecast comes after important product launches. Reebok had particularly high hopes for The Answer, a basketball shoe launched in November and endorsed by Mr Iverson. Reehok, overtook Nike as the world'a largest footwear producer in 1987 but has been on a downward spiral in recent years. Niks's revenues are three times greater than those of Reebok, with Reebok's share of the world market just 15% compared with Nike's 32%. Last year, the company posted $3.5bn in sales.

Reebok said its income for the year to December 31 would be in the range of $2.25 to $2.35 per share compared with $2.00 per share for 1996. The company also announced it would take a pre-tax special charge of $15 to $20m related to the restructuring of marketing contracts.

Reebok International



Source: Datastream/ICV

As sales of branded footwear slip, Reebok is to increase deals with stars such as Michael Chang (above). Nike's signing of basketball player Michael Jordan left Reebok wrongfooted Allsport

India to launch financial derivatives market

Equities futures contract planned for April next year as government moves to liberalise regulation

By Krishna Guha in Bombay

India plans to launch its first financial derivatives market by April next year.

A report, commissioned by Sebi, the country's financial regulator, recommends that an equity futures contract based on an indsx of 50 leading stocks bs listed on ths National Stock Exchange, the country's biggest stock market. Sebi is expected to give the final go-ahead. The changes do not need approval by the indian parliament, which was dissolved last week.

In the past, India has been slow to embrace derivatives hut the government is now liberalising financial regulation in order to improve competitiveness. The report outlining ths proposals is to be published next week. L C Gupta, an academic who chaired the committee, said that the "time for derivatives has come". He said his report was "almost complete" and the consulteion period would be over "by the end of the month". The market should be functioning "in three or four months' time", he added.

The Gupta committee had opted to start with futures based on the NSE 50 because the contract would be simple, tha underlying basket of stocks was liquid and the index as a whole would be "difficult to manipulate". A survey of bankers and brokers suggested it would be the most popular contract. The NSE yesterday promised to "roll out new products faster than you would believe". It was expected that options contracts based both on the index and individual atocks would also be listed next year.

R H Patil, managing director, said it had already completed trials of custom-built software. The NSE also hoped to "add debt and forex contracts", although this would require regulatory approval. This was unlikely in the short term but could form part of India's preparations for full currency convertibility in 2000.

India's derivatives market has been designed to encourage active participation by private individuals, who account for 70 per cent of turnover in the underlying stocks.

This is likely to be reflected in the small contract size, and a sharp distinction between the capital adequacy requirements of clearing members and those who only trade.

Ths move comes in the face of opposition from the Bombay Stock Exchange – India'a second-largest – which argues that the country is not yet ready for derivatives.

Some sconomists agree. Only a handful of the underlying stocks are liquid, transaction costs are high and market rigging still takes place, they argue.

However, there is demand for equity futures and options from portfolio investors who want to be able to hedge exposure to India's stock markets.

India's banks and fund managers say a derivative market – which will allow them to manage index funds and low-risk funds effectively – is needed for the development of the country's mutual fund industry.

Indian companies are also demanding access to risk management tools. Mr Gupta said there was a "need for derivatives to hedge risk".

He admitted that derivatives were potentially risky instruments and called for strict regulation. The task ahead, he said, was to educate brokers and "increase investor confidence" before the new contract is launched.

Gold slide spurs Barrick into buy-back

By Scott Morrison in Toronto

Barrick Gold, North America's largest gold producer, said yesterday it could buy back as much as 10 per cent of its stock – worth about C$710m (US$498m) at current prices – in an attempt to prop up its shares, which falling gold prices have pushed to near five-year lows.

Barrick said it would apply for regulatory approval to repurchase up to 31m common shares over a one-year period, although Peter Munk, chief executive, said it was unlikely the company would buy the full amount.

Barrick's share price, like that of other producers, has dropped sharply in recent months, falling almost 50 per cent since last December as gold prices tumbled to 18-year lows. Yesterday the company's shares slipped 20 cents to C$22.70 in early Toronto trading, against the year's high of C$41.50.

Analysts said ysstsrday's announcement suggested Barrick had not been able to find value in potential acquisition assets held by other producers. Barrick had casb flow of US$327m and long-term debt obligations totalling U$500m at the end of the third quarter.

The announcement was also seen as a mova to dater speculators from attempting to drive the company's stock down further. "If they see another slids coming, [Barrick] could step into the market and artificially prop up their share price," said one analyst.

Mr Munk said the buy-back programme was a signal to shareholders that Barrick remained financially strong and confident that gold prices would recover.

Gold slipped below US$300 an ounce in late November on concern that more central banks could sell bullion reserves. Argentina, Australia, Belgium and the Netherlands have announced large sales from their reserves of gold.

Mr Munk said he would not predict when the gold slump would end, but he remained confident prices would recover once the proposed European Central Bank established its gold reserves policy in mid-1998. "I don't believe there is any rational expectation that [European] central bankers will destroy their taxpayers' wealth. It would just increase their dependency on the US currency."

Barrick remains well positioned because of its hedging programme, with contracts to sell about 10m ounces at US$410 an ounce.

FMC adds to series of warnings

By Nikki Tait in Chicago

FMC, the US chemicals and machinery conglomerate, yesterday became the latest US company to warn that e slowdown in sales in south-east Asia and South America would hit fourth-quarter results.

The company said that earnings in the final quarter would be below analysts' expectations, in the 45 cents to 55 cents a share range, because of market weakness in "some specific agricultural prodncts and industrial chemicals markets".

According to First Call, the research service, analysts' estimates had averaged about 97 cents a share.

FMC said the shortfall had been compounded by continued start-up problems at a herbicide plant and a strike at one of its big hydrogen peroxide customers.

The downturn in sales to Asia and Brazil on the agricultural products side had caused FMC to adjust mannfacturing to bring stock levels back toto line.

In industrial chemicals, the Chicago-based company said the "precipitous decline in gold prices" and subseqnent effect on mining activity was also putting pressure on margins in its sodium cyanide business.

Meanwhile, redncad demand for Canadian pulp markets bad also driven hydrogen peroxide volumes lower.

Robert Burt, chief executive, said the company still expected "a strong rebound in agricultural prodncts" next year, althongh he warned that the weak conditions would probably persist in the industrial chemicals business.

He added that, with the machinery and equipment operations set for "continued growth", FMC was comfortable with analysts' profit expectations for 1998. These are pitched at about $5.83 a share.

FMC, however, plans to take e $265m pre-tax charge in the final quarter of 1997 to cover a range of restructuring and asset impairment charges, as well as an additional charge to cover environmental costs at discontinued operations.

Shares in FMC fell sharply on the news, down $2⅞ at $66½ by midday.

Breaking the bottleneck at Boeing

Ron Woodard, head of civil aircraft, says heavy demand caused production delays

Ron Woodard, the combative head of Boeing's civil aircraft business, bristles at suggestions that he should have foreseen the production problema which have plagued his company this year. "Our eyes *weren't* off the ball," ha says. "We saw the ball."

Ron Woodard: 'Airlines are not overbuying like they did last time' Ashley Ashwood

Boeing, the world's biggest aircraft maker, had to halt production of its flagship 747 model for 20 working days in October because suppliers could not deliver parts quickly enough to keep up with demand.

With airline orders aoaring, Boeing set out to increase prodnction from 18.5 aircraft a month at the beginning of 1996 to 43 a month by the middle of next year – "the steepest production increases sinca the dawn of the jet age", it said.

The group has taken a $1.6bn provision to pay for the disruption of its manufacturing process, pushing it into loss in the third quarter. The problems will continue to depress earnings next year; the company has said that 12 aircraft will be delivered late to airlines.

Boeing has resumed 747 production and Mr Woodard says the shortage of parts has eased. He doggedly defends Boeing's management of the crisis, saying there are few things he would have done differently.

Did Boeing's production crisis develop because its executives were preoccupied with the takeover of McDonnell Douglas? Mr Woodard insists the acquisition, completed in the summer, was not a distraction, even though the purchase was strongly contested by Karel Van Miert, the European Union's competition commissioner, who approved it only after a tough fight.

Perhaps Boeing ran into trouble because, after shedding 12,000 experienced staff in 1995, it had to take on thousands of new employees this year to cope with increased airline orders? "All the second-guessers yap about that," says Mr Woodard. Many of the workers who left in 1995 were close to retirement anyway, be says.

So what did cause the disruption? Mr Woodard concedes that there were some distractions. Boeing built a new model this summer – the 777-300, an extended version of tha 777-200, which entered service in 1995. "Every new model is a trauma," Mr Woodard says. Boeing also handed over 777s and 747s to Saudia, the Saudi Arabian airline, with new and complex cabin configurations.

Boeing could have introduced its new generation of single-aisle 737 aircraft earlier than it did, "but the market wasn't ready," be says.

The company's new lean production techniques, with the emphasis on reducing inventory, also meant that when parts were in short supply, the entire assembly process was disrupted.

Does this mean that "just-in-time" prodnction has proved to be an expensive mistake? "It's the only way to survive," Mr Woodard says. "Unless," be adds, unable to resist a dig at Airbus Industrie, Boeing's European rival, "you're getting massive government subsidies."

The real reason for Boeing's prodnction crisis, be says, is that the airline business is cyclical. Aviation profits are rising, airlines wanted new aircraft, and Boeing was reluctant to turn them away. "You try to keep your customers happy and it's a competitive issue in the marketplace," he says.

Airbus acquired several of its existing customers during the last aircraft upturn, and Boeing wanted to try to prevent that happening this time.

Mr Woodard says that Boeing came close to achieving its target of 43 aircraft a month without any problems. It is already producing 40 aircraft a month and will now increase output further. A 20-day stoppage was not a bad achievement during an extended programme of steep production increases, he says. "We were very close to being able to muscle our way through it."

The high level of aircraft orders worries some analysts, however. When the Gulf War and the worldwide recession battered airline profits in the early 1990s, many carriers still had outstanding orders that they were unable to finance.

Mr Woodard says airlines are not making the same mistaka today. "They're not overbuying like they did last time. We're seeing a build-up that's prudent." He concedes, with a laugh, that "we always say that at this time of the cycle", but insists that the figures support his view. In the late 1980s, new passenger jet orders represented 20 per cent of the aircraft then flying. The figure today is less than 9 per cent.

"Airlines used to think they had to fly everywhere. That isn't happening any more. They're a lot healthier than they were and a lot smarter."

Michael Skapinker

Door to top job stays shut for Avon Ladies

By Richard Tomkins in New York

Avon Products, the US cosmetics company that had been expected to choose an Avon Lady to become its first femala chief executive, yesterday stuck with tradition by appointing a man to the job.

He is Charles Perrin, 52, a member of Avon's board of directors who was chairman and chief executive of Duracell International until the battery company was taken over by Gillette last year.

Mr Perrin will take up the vacant position of vice-president and chief operating officer on January 5, than become chief executive in mid-year when the present Incumbent, 64-year-old James Preston, steps down.

However, Avon also elected two of its female executives to the board and promoted one of them, 39-year-old Andrea Jung, to the position of president, possibly opening tha way for her to become the next chief executive but one.

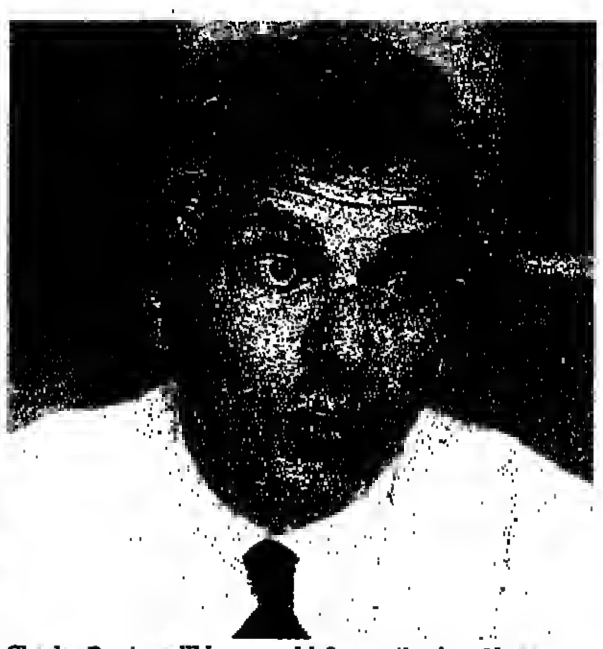
The competition for tha top job began in May when Avon mada it clear that the man previously regarded as Mr Preston's most likely successor – Edward Robinson, then the company'a president – was not going to get the job.

Mr Robinson left and Avon launched a search for a new chief executive designate. The most hotly-tipped contenders Included four women already holding senior executive positions within the company: Ms Jung, Susan Kropf, Christina Gold and Edwina Woodbury.

Yesterday Avon acknowledged that there had been speculation about the possible appointment of a woman to the top job. "But we have always been clear that the board intended to review all options, including candidates from outside the company as well as within."

Apparently confirming that Ms Jung was a potential successor to Mr Perrin, Avon added: "Our chief executive, James Preston, has said he could see a day when a woman would run Avon, and this announcement today is consistent with that."

Mr Perrin, who holds an MBA in marketing and international business from Columbia University and a BA from Trinity College, joined Duracell as president of its US business to 1985 after 12 years at Chesebrough-Ponds. He joined Avon's board in May last year.



Charles Perrin: will become chief executive in mid-1998

INTERNATIONAL NEWS DIGEST

Investors move into US bonds

US mutual fund investors made a significant switch from equities to bonds last month, according to the latest figures from the Washington-based Investment Company Institute, as bond funds enjoyed their strongest inflows for almost four years while net investments in equity funds diminished.

The figures suggest that the turmoil in Asian markets may be beginning to affect US retail investors' confidence, although equity funds still registered strong net investments. Net flows to the funds remained strong during the extreme market volatility at the end of October.

Total flows into bond and income funds were $8bn, up from $3.7bn in October. This was the largest recorded since January 1994, on the eve of a severe "bear market" in bonds, when the funds took in a net $11.02bn. Meanwhile, total flows to equity funds were estimated at $13.5bn, down from $18.2bn in October and $25.7bn in September. The institute, which stressed that the figures were estimates based on returns from 97 per cent of mutual fund managers, said that foreign-related funds had experienced weakness due to investors' uncertainty about developing economies.

Equity funds may also have been affected by investors' decisions to avoid buying until the funds have made their capital gains distributions – usually in the last two months of the year. Bond funds, however, have been strongly marketed in recent weeks, with fund companies working on the assumption that there may be a fall in demand for equity funds. *John Authers, New York*

■ VENEZUELA

Sidor valued at $1.535bn

The Venezuelan government yesterday valued Sidor, the state-owned steel plant slated for privatisation on December 18, at $1.535bn. Twenty-five companies, including leading steel producers such as Japan's Kobe Steel, Mexico's Ahmsa and GAN, and Ispat of the Netherlands, prequalified and formed five consortia to bid for a 70 per cent share in Sidor, the last large publicly owned steel company to be privatised in Latin America. It has a production capacity of 3.7m tonnes a year. Twenty per cent of the shares will be offered to employees, with the remaining 10 per cent going to retail investors. *Raymond Colitt, Caracas*

■ OIL

PDVSA at record $4.7bn for year

Petróloes de Venezuela (PDVSA), the state-owned oil company, announced record preliminary net profits for 1997 of $4.7bn on net export revenues of $18bn, up from a $4.5bn profit last year. "It has been an excellent year," said Luis Giusti, PDVSA president. It marks the fourth consecutive year of growth for PDVSA. In a previous interview he had indicated that this year's good performance was due to an increase in volume and net value, offsetting slightly lower oil prices compared with last year. PDVSA paid about $11bn in taxes and royalties, he said. *Raymond Colitt*

■ GLOBAL HEALTHCARE FUND

US, Nordic groups in joint venture

Two US and Nordic asset management companies have teamed up to launch an offshore global healthcare fund using research from the Karolinska Institute, which is responsible for awarding the $1m Nobel medicine prize.

Cowen Asset Management, based in New York, and Carnegie Asset Management, a Nordic investment banking and asset management company, are to target high net worth and institutional investors in Scandinavia with the new fund.

The Institute will provide research advice for the fund, which aims to invest in 50 to 100 global healthcare companies valued at less than $1bn. The two companies manage a combined $9.6bn in assets.

Jane Martinson, Investment Correspondent

■ ONLINE SERVICES

US groups to merge operations

Time Warner and US West Media Group are to merge their online services which provide high-speed internet access via TV cable services in several US cities.

Time Warner's cable TV unit will hold a 66 per cent stake in the venture, with US West controlling the remainder. Currently, Time Warner's Road Runner internet service has about 24,000 subscribers while US West's MediaOne has 20,000.

The combination is seen as a challenge to @Home Network, a pioneer of the use of cable TV services to deliver internet access. @Home, to which TCI, the largest US cable TV service, owns a 45 per cent staka, had 26,000 subscribers at the end of September.

Louise Kehoe, San Francisco

Casino sees boost from acquisitions

By Andrew Jack in Paris

Casino, the French retailer, estimated yesterday that net profits next year would be up by nearly one quarter as a result of domestic acquisitions in the past few months.

It said the purchase of control of Franprix and Leader Price, and its minority stake in Monoprix and Prisunic, would create synergies and additional profits of FFr258m ($43m) in 1998 after allowing for financing costs of FFr136m.

The acquisitions reflect intensifying consolidation in the French retailing sector, amid tight restrictions on the opening of new retail surfaces in France and a growing number of takeovers.

They followed a bostile takeover bid launched against Casino this autumn by Promodès, a rival retail group, which led to an alternative "friendly" offar by Rallye, already its largest shareholder. The battle has been suspended until mid-January in expectation of a court ruling.

Casino said its 1997 results would be in line with projections, with turnover up 12 per ceot to FFr75.2bn and net profits ahead of exceptional items up 41 per cent to FFr1.07bn for this year and FFr1.34bn for next. It said net debt would rise to FFr9.3bn this year before falling sharply to FFr3.24bn by 2000.

Against criticism by Promodès, the group maintained that its "economic" purchasing power – representing the weight in negotiations it has with suppliers through its wholly and partly owned subsidiaries – would be FFr128bn next year.

It said its objective was to raise a quarter of turnover from business outside France by 2000, expanding its network to include 12-14 hypermarkets in Poland, 6-8 in Taiwan and "an important acquisition" in Latin America.

Promodès – which rejects Casino's argument that its takeover prevents it from launching other activities – has also continued to expand through acquisition. In the last few days it has announced a regrouping of its Italian activities and purchased Catteau, the French retail chain previously owned by Tesco of the UK.

Scotiabank plans to take majority stake in Inverlat

By Leslie Crawford in Mexico City

Bank of Nova Scotia, which has managed Inverlat, the Mexican bank, since the 1995 peso crisis, plans to acquire a majority stake next year, according to Bill Sutton, Inverlat chairman.

The move would make the Canadian bank the fourth foreign bank to take over a Mexican financial group since the devaluation of the peso. Last month, Citibank, of the US, agreed to purchase Grupo Abaco-Confia, a Monterrey-based financial group. Spain's Banco Bilbao Vizcaya and Banco Santander have also bought ailing Mexican banks.

Other foreign groups, including Hong Kong Shanghai Bank and the Bank of Montreal, have taken sizeable minority stakes in Mexican banks whicb became severely decapitalised by the rapid deterioration of their loan portfolios during the 1995 recession.

Inverlat was one of the first to collapse under the weight of bad loans in mid-1995. It was rescued by the central bank, which feared a run on the entire banking system if it allowed the country's fourth largest financial group to fail.

Authorities asked Bank of Nova Scotia to take over its management. In return, the government undertook to absorb Inverlat's loan losses and to keep the bank adequately capitalised.

The Canadian bank injectad $30m of new capital for a 10 per cent stake. It also invested $145m in the form of a bond, to be converted into equity in 2000 if Inverlat could be restored to health.

In an interview, Mr Sutton said Bank of Nova Scotia was planning to bring forward the date of conversion to 1998.

"The economy has recovered more rapidly than we had anticipated and this has helped the banking system," he said.

Bank of Nova Scotia will own a 55 per cent share in Inverlat after converting the bond into equity.

Mr Sutton said Inverlat had begun to offer large discounts on mortgages to persuade lapsed debtors to clear their arrears. By next March, he said, the bank hoped 70 per cent of its mortgage portfolio would be current.

While most large Mexican banks have curtailed lending sharply since the crisis – bank credit fell 50 per cent in real terms to both 1995 and 1996 and experienced only negligible growth this year – Mr Sutton said Inverlat was "back in the lending game".

"The bank has recovered a lot more quickly than we anticipated, and we now believe Inverlat could turn a profit in 1999," he said.

Sweden's ASG to sell its most profitable division

By Tim Burt in Stockholm

ASG, one of Scandinavia's leading transport and logistics groups, is planning to sell its cold storage and food distribntion business – its most profitable division – as part of a wide-ranging restructuring.

The Swedish company is seeking trade buyers for Frigoscandia, which operates plants in France, Germany, Scandinavia and the UK, after deciding to concentrate on road transport, parcels and logistics.

"Wa are in a structured anction process for Frigoscandia and we bope to complete a deal within a few months," said Christer Gardell, ASG chairman.

The move follows the purchase this year of e controlling stake in ASG by Custos, the quoted investment company which also owns a big stake in Skanska, the big construction group.

Mr Gardell, also chief executive of Custos, hinted the action at ASG signalled a more aggressive approach by the investment group towards underparforming assets.

"We have taken a driving position in order to exercise control in the direction of these companies," he said.

Since Custos acquired 46.6 per cent of ASG'a voting rights, top management at the transport group has been overhauled, dominated by the appointment of Jörgen Ekberg as chief executive.

Although he gave no indication of the likely sale proceeds, Mr Gardell predicted tbe group would sell ths business at a premium. He justified the disposal plan by claiming Frigoscandia tied up too much capital.

In the first nine months, the cold storage businesa contributed increased profits of SKr114m ($14.6m), compared with SKr89m. Losses in other divisions, however, led to sharply reduced group operating profits of SKr65m, against SKr140m.

Citicorp buys JP Morgan trust and agency business

By John Authers in New York

Citicorp has acquired the global trust and agency services business of J.P. Morgan, which covers assets outstanding of $700bn, in a deal which accelsratea the already swift consolidation in the global securities processing business.

Citicorp is one of a few large US banks – with Chase Manhattan, Bank of New York and State Street – which are aiming to build scale in the business by acquisitions, mostly by buying books of business from competitors leaving tha market.

The transaction completes J.P. Morgan's exit from operational aervices businesses. It had already sold its corporate trust and global equity custody businesses to Bank of New York. Its logic was that these business requred high technology investment, while generating relatively low profit margins.

The increase in scale for Citicorp is significant. Tha book of business it is buying, which covers handling tha custody of bonds, inclndes 500 customers and about 12,000 issues. Most are European, reflecting J.P. Morgan's broad spread of business.

Sandra Jaffee, Citicorp head of worldwide securities services, said the deal would add $700bn to Citicorp's assets outstanding, bringing the total to about $2,500bn.

"For anyone in this business, market share and scale are very important. We think these are good businesses, which will give us the opportunity to pull through other Citibank services, like cash management and foreign exchange," she said.

She claimed that the move would provide the bank with global leadership in European debt markets.

Citicorp said it would continue looking for similar acquisitions.

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HK Telecom moves on monopoly

By Louise Lucas in Hong Kong

Hongkong Telecom is close to an agreement with the government over the early termination of its international monopoly, market sources said yesterday.

It is now expected that the monopoly will expire in 1999, seven years before the date specified by the existing agreement. Hong Kong agreed to bring this forward in part to meet ths World Trade Organisation's call for international liberalisation of telecoms.

Linus Cheung, chief executive of Hongkong Telecom, said earlier that he was looking for a settlemant before the year-end. Yesterday neither the company nor the telecoms regulator would comment on the progress of negotiations.

However, analysts said it appeared that Hongkong Telecom's compensation package would be largely made up of property. The company would receive the right to redevelop its properties without paying the government a hefty land premium, as is usual.

Hongkong Telecom, which is controlled by Cable and Wireless of the UK, acquired its exchange sites at low prices over a decade ago, and is estimated to have about 3.6m gross square feet of land, although it would be able to redevelop only a portion of thet.

"I've been getting the impression the talks are reaching a climax," said Andrew Hall, regional telecoms analyst at Kleinwort Benson Securities. He believes the compensation package will include either a cash element or increased tariffs, or both, in addition to the property rights.

Though Singapore Telecom was compensated for the loss of its domestic and international fixsd line monopoly with S$1.5bn (US$927m) in cash, analysts do not expect Hong Kong to make a large cash payment. This is partly because Hongkong Telecom does not need the cash – it announced a cash pila of HK$15bn (US$1.94bn) iaet month, although it has since spent HK$4.83bn acquiring two mobile networks. Political considerations are anothar factor.

"Does the new Hong Kong government, barely six months old, want to be paying a huge cash sum to a British company? At a time when peopla are attacking the Hong Kong dollar and reserves are under more pressure than they have ever been?" says Jake Lynch, telecoms analyst at Jardine Fleming Securities.

Tariffs, however, are likely to be discussed. As its profits from international calls fall, Hongkong Telecom is keen to charge for domestic calls, which are free. But last time the government attempted to do this there was a public outcry. Adam Quinton, regional telecoms analyst at Merrill Lynch in Singapore, estimates Hongkong Telecom needs more than HK$1bn in additional domestic rsvenues in order to make an economic return.

Linus Cheung: wants a settlement by the end of the year

Siemens plays down Asian impact

By Graham Bowley in Munich

Siemens, the German electronics and electrical engineering group, said yesterdsy that turmoil in Asian markets would have little effect on its business in the region.

Heinrich von Pierer, chief executive, eaid Siemens's German business – its biggest market – would show growth in 1997-98 for the first time in five years, but international markets remained the chief impulse for its expansion.

The group, which is focusing on growth outside Europe, said that for the first time next year its workforce abroad would exceed that in Germany.

Speaking in Munich at the group's annual press conference, Mr von Pierer said that so far the impact of turbulence in south-east Asia on Siemens – one of Europe's biggest companies with substantial operations in Asia – had been "minimal" and he expected the long-term growth outlook to remain unaltered.

"I think nothing will change there... Ths trends will remain unchanged. Growth rates will still be higher than in Europe," he said. "We have not lost any projects there. We have to assume there will be delays to infrastructure projects but I do not consider thie a major cause for concern."

Mr von Pierer said Siemens had hedged against adverse currency movements and that production in Asia would benefit from the sharp reduction in costs there.

The company plans to reduce the share of sales in Europe from 65 per cent to about half, with Asia's share of total sales donbling to around one-fifth.

Siemens stuck to its forecast of a rebound in profits growth in 1997-98 after only a slight increase last year. Net income, excluding extraordinary items, would grow 15 per cent to more than DM3bn ($1.6bn), while new orders would be more than DM115bn and sales would exceed DM110bn.

But Siemens conceded that intense price competition in some businesses continued to put margins under pressure. The semicondnctor business ehowed "extreme price erosion", although the price cycle was now "at its trough", Mr von Pierer said.

He vowed to press ahead with restructuring, including fresh acquisitions and sales of business divisions if they did not perform well. Siemens was considering some smaller projects but had no large-scale plans at present.

"Right now we have specific plans to do one thing or the other in the triple-digit-million [D-Mark] figures but spectacular plans have not been made," he said.

Indosuez WI Carr set for shake-up

By John Ridding in Hong Kong

Indosuez W. I. Carr is today set to become the latest investment bank to restructure its operations in Asia as the industry braces for a further wave of job cuts in response to the regional financial turmoil.

Shrinking trading volumes, dwindling numbers of share placements and a hiatus in initial pnblic offerings have prompted a number of investment banks to restructure, including Deutsche Morgan Grenfell. Several others are seeking to finalise cost cuts over the next week.

"Many of those that have not announced cuts yet will have to do so," said one Hong Kong banker. "Everyone built np a headcount which was quite ambitions even for a bnll market. We are all looking at budgets again and there will have to be some substantial cuts."

Indosuez W. I. Carr, the equity arm of Crédit Agricole Indosuez to Asia, has been rsorganising operations, moving towards a functional structure based on business lines. This week, it announced the resignation of John Mulcahy, managing director of its Hong Kong operations.

As with many banks in the region, most of the reorganisation to be announced today is expected to involve the research, trading and sales divisions. Some 70 or 80 staff could be affected, compared with a total headcount of about 700.

● Peregrins Investment Holdings, which last month announced the loss of 275 jobs, yesterday revealed the impact of the market downturn, writes Louise Lucas. Results for the first 10 months of the year showed profits fell almost HK$250m (US$32.3m) in the four months from end-June.

A set of post-interim figures showed that while the group reported net profits of HK$635.6m for the six months to the end of June, this figure bad fallen to HK$336.7m for the 10 mouths to October 31.

Peregrine took the unprecedented step of issuing the additional figures to quash rumours it was in serious financial difficulties. Its biggest loss at operating profit level came in equity products, where earnings were down HK$131.8m in the four months to October 31.

The company said: "The upheaval in Asian currencies and stock markets since the interim report of June 30 did not reeult in any material equity underwriting losses to the group, but affected the group's primary activities to all markets."

Yamaichi poised to sell HK affiliate

By Gillian Tett in Tokyo

Yamaichi Securities, Japan's fourth largest broker which collapsed last month, is poised to sell its Hong Kong operations. An announcement is likely today, after several companies – including at least two Taiwanese groups – expressed interest.

The Hong Kong-based affiliate, which is wholly owned by Yamaichi, includes a stock broking and futures business. It is understood to have been one of the few Japanese stockbroking operations that has been consistently profitable in Asia, and employs some 120 people with shareholders' funds of about $75m.

The impending sale comes as efforts to sell Yamaichi's domestic brokerage business as a single unit are being abandoned. DLJ Phoenix, the corporate adviser which is managing the sale, decided this week to seek separate offers for the group's trust bank business, which has funds of some Y20bn.

American International Group has indicated that it inteods to hire 800 of Yamaichi's employees. EDS, the US compnter group, has also said it would like some 600 staff. Yamaichi says it has now received well over 1,000 offers for its 7,500 staff.

Talks are also continuing over the sale of Yamaichi's international asset management business. Société Gènérale, of France, and Sumitomo Bank have suggested taking an equal joint share in the business.

Some observers say Sumitomo Bank hopes to use the deal to eventually gain complete control over operations in the coming years by later buying SocGen out.

Sumitomo is keen to acquire a fund management arm ahead of Japan's "Big Bang" financial deregulation. However, no firm deal has been agreed and negotiations are continuing with other groups.

Seat set to surge in 'positive' year

By David White in Madrid

Seat, the Spanish carmaker owned by the Volkswagen group, is set for record production and an increase of more than 30 per cent in turnover this year.

Results should be "very positive" after moving out of the red in 1996 for the first time in five years, according to Pierre-Alain De Smedt, Seat chairman.

He would not be specific, but trade unions at tha company expect it to announce net profits of sbout Pta10bn ($67m). This would be roughly double last year'e profit of Pta5.34bn, which partly reflected financial eupport from the German parent and aid from the Spanish government and regional authorities.

Turnover was expected to reach about Pta800bn, after rising by a third the previous year to Pta607bn.

Mr De Smedt, who took over a year ago after heading Volkswagen's operations in Brazil, said the Spanish subsidiary's total output of Seat and VW models would reach a record 465,000 units this year, compared with 416,000 iast year and ahead of the company's initial target. it aimed to lift the figure to 500,000 a year by 2000.

Describing this as a "historic" year in the group's recovery, he said it was considering recruiting staff – it roughly halved its workforce in the past five years to about 13,000.

Its Martorell plant near Barcelona, built after Volkswagen bought control of the company from the Spanish government in 1986, had become one of the most productive in the Europe, with an average annual output of 60 vehicles per employee, Mr De Smedt said. He added that there was still room for productivity gains.

Sales of Sest models – mostly exports – were expected to exceed 400,000 this year for the first time, compared with 344,000 in 1996.

Bruised but unbowed in Asia

Japanese trading companies' long-term faith in the region remains undaunted

When it planned its gleaming new Thai steel plant alongside NKK and a local partner, Japan's Marubeni Corporation had visions of coining money as it produced for a surging domestic market. Now, in the wake of the baht devaluation in July, it is scrambling to ensure the venture remains financially afloat and finds export outlets.

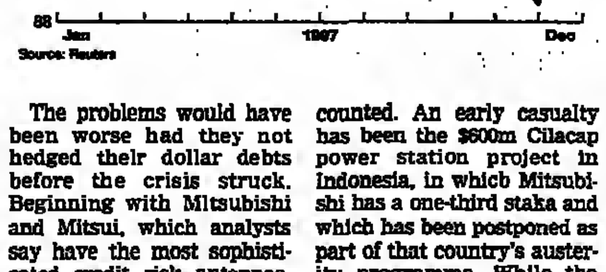
The story is repeated across the network of Japan's large trading companies, which has spearheaded the country'e thrust into south-east Asia over the last 10 years. Growth in this once-thriving region, which takes 40 per cent of Japan's exports, was to be a cornerstone of their expansion. As it crumbles, the trading companies are being forced to count the cost.

First-half results were buoyant, tbanks to sales booked before the crisis struck, but for the full year to next March average net revenue growth at the large trading houses will slip to 3 per cent from 7 per cent in 1996-97, says Matt Aizawa, of Merrill Lyncb. Next year, revenues will fall by 2 to 3 per cent.

"We have been very much affected," says Kazuhiko Sakamoto, corporate strategy director of Marubeni. Over the next two to three years, trade volume in Asia could drop by 10-20 per cent, he says. But Marubeni is not alone. Though all the large trading companies expect south-east Asia to recover in the medium term, they are looking at lean times ahead.

Japanese trading companies

Relative to the Tokyo market (Topix index)



Source: Reuters

The problems would have been worse had they not hedged their dollar debts before the crisis struck. Beginning with Mitsubishi and Mitsui, which analysts say have the most sophisticated credit risk antennae, most had hedged their south-east Asia risk by late spring or early summer. Still, the trading companies' mix of business – which includes direct investment in manufacturing and project management ae well as basic trading activities – means other problems are harder to avoid.

Tbough lower sonth-east Asian currencies have created new export possibilities from south-east Asia, sales from Japan to the region are likely to fall as local demand sbrinks and projects are postponed. Trading companies are also actively involved in large projects, sucb as the building of power statione and giant industrial plants.

They face the loss of big deals on which they once counted. An early casualty has been the $600m Cilacap power station project in Indonesia, in whicb Mitsubishi has a one-third staka and which has been postponed as part of that country's austerity programme. While the trading companies have been able to renegotiate their power statioo deals in Thailand to take account of the lower exchange rate, some other projects, such as Marubeni's Cbandra Asri petrochemical plant in Indonesia, are underperforming expectations.

Trading compaoies whicb report their results under US accounting standards – this excludes only Sumitomo and Nissho Iwai, among the larger ones – face a need to write down the value of their equity investment in south-east Asian units to reflect lower currencies and, where relevant, lower local stock market values. The hit is taken directly on the balance sheet, however, and does not pass through the profit and loss account.

But the companies' long-term faith in south-east Asia remains undaunted. "In the medium to long term, the economic restructuring might be able to provids us with more business opportunities," says Shigeaki Yoshikawa, assistant general manager of Mitsubishi. "Overall, the trading companies won't exit or shrink their business," adds Kenichiro Yoshida, of Salomon Brothers. "Expansion will stop for two or three years while they wait and see."

Many companies say they are taking a close look at costs and may cut some of the more expensive expatriate posts in the region, especially as the weak economies in south-east Asia mean it is now possible to hire high-calibre local executives cheaply. All are concerned with the need to prop up the businesses they have been developing in the region.

"We have to secure our assets and protect them," says Motoyuki Oka, of Sumitomo. But he adds that the company is also prepared to consider case-by-case opportunities to buy into new businesses that become available as a result of the economic slowdown. In this area "we are very cautious, but aggressive at the same time".

While the crisis might have been expected to force the companies to seek opportunities in other countries and regions, this is happening only to a limited extent. Mitsubishi says it has been interested in India since it started liberalising its economy to the early 1990s, but executives at other companies say that India's business culture is better suited to US and European companies. Japanese executives simply feel more at home in east Asia, they say.

Similarly, althongh there is increasing interest in the resource-rich republics of central Asia, trading companies give various reasons why there has been no new rush into China, in which they invested heavily in the middle of this decade.

One is that the ministerial changes hammered out at this antumn's Communist party congress have slowed government decision-making. Another is that tha legal protection afforded to business ventures remains inadequate. A third reason, voiced only privately, is the fear that China's economy is also slowing and its currency may come under pressure.

That leaves trading companies littla choice but to ride out a storm that they expect to pass only slowly in Thailand and more quickly in Indonesia and the Philippines.

Present robust earnings from the US may compensate to soma extent, but tha task is made harder by the weakness in Japan's own economy. "South-east Asia is bad, but the effect is compounded by our own troubles," says a senior executive at Nissho Iwai.

Peter Montagnon

Car parts groups to merge

By Haig Simonian, Motor Industry Correspondent

The consolidation of the car components industry continned yesterday with an agreed FFr7.3bn ($1.2bn) takeover of Bertrand Faure by Ecia.

The dsal will create France's second biggest car parts group, behind Valeo, with sales of FFr26bn, and one of Europe's largest components makers.

Bertrand Faure manufactures seats, carpets and interior prodncts. Ecis is Europe's biggest exhaust maker and produces front modules and fascias.

The deal is the first big move at Peugeot-Citroën, the French vehicles group, since Jean-Martin Folz took over from Jacques Calvet in October.

Peugeot-Citroën, which owns 68 per cent of Ecia, bought 17.3 per cent of Bertrand Fanre with two partners late last year.

It is unclear what impact the deal will have on Peugeot-Citroën's finances. Ecia is bidding FFr430 a share for Bertrand Faure's outstanding stock, to be financed by a rights issue of at least FFr2bn and borrowings. Peugeot-Citroën will retain 51 per cent of the combined group.

Ecia was created in 1987 after Pengeot-Citroën grouped, and then floated, its component operations in a separate subsidiary.

Peugeot-Citroën said the merged company would probably be renamed.

INTERNATIONAL NEWS DIGEST

Finnair scraps Diners Club pact

Finnair, the Finnish flag carrier, yesterday said it would no longer accept Diners Club for credit-card payments following a dispute over commission charges. The airline said it was terminating its global agreement with Diners Club in protest at charges levied on corporate accounts.

Finnair said other European airlines had discussed similar moves, though it was the first to take unilateral action. Diners Club, a subsidiary of Citibank, of the US, declined to comment. However, Kurt Ludwigson, European president of Diners Club, is expected to fly to Helsinki today to try to resolve the dispute.

The disagreement centres on commission rates for so-called lodged card transactions – tha payments system used by companies booking flights through travel agents. According to Finnair, Diners Club's transaction charges on such accounts vary between 2 per cent and 4 per cent, compared with 1.25 per cent on most bankers' cards. "We are expecting them to come up with a better offer," Finnair said. Diners Club last year accounted for 30 per cent of Finnair's total credit card sales, representing revenue of FM450m ($84m).

Tim Burt, Stockholm

■ ADVERTISING

Publicis to appeal against ruling

Publicis, the French advertising group, yesterday said it would appeal against a ruling by a US judge which has forced it to withdraw its takeover bid for True North, the Chicago-based agency. Publicis said it was "considering all its options" and had asked for a stay of execution on the order issued by Judge Joan Gottschall. Publicis has been trying to biock the proposed $440m merger between True North, in which it owns 18.5 per cent, and Bozell, Kenyon & Eckhardt.

The judge acknowledged that her injunction would "seriously impair" Publicis' chances of defeating the takeover, but argued that the French company had previously entered an agreement to support True North's desired acquisitions, "not to take active efforts to undermine them". She also said Publicis "in some way created this crisis by waiting since late July or early August to begin its campaign to undermine the Bozell transaction".

Nikki Tait, Chicago and Andrew Jack, Paris

■ TYRES

Goodyear in Slovenia move

Goodyear has bought a majority stake in the tyre-making operations of Slovenia's Sava and plans to double output at the plant within five years, from 4.2m tyres in 1996. The investment by the Ohio-based group is the largest in Slovenia by a foreign company since the country became independent in 1991.

Goodyear signed an agreement on Wednesday to pay Sava $107m in cash for a 60 per cent stake in a new joint-venture company. Sava will keep the remaining 40 per cent. Goodyear is paying Sava a further $13m for a 75 per cent stake in an operation for producing airsprings, air-conditioning hoses and belts for vehicles.

Jack Grimston, Slovenia

■ CREDIT CARDS

BNP, Cetelem buy into Laser

BNP, the French bank, and Cetelem, the specialist financial group controlled by Paribas, yesterday each took stakes in a credit-card subsidiary of Galeries Lafayette, the French retailer.

Cetelem subscribed to a rights issue giving it a 10 per cent stake in Laser, which operates a range of electronic shopping and credit-card businesses. Laser has a 51 per cent stake in Cofinoga, which runs dedicated credit cards for a number of retailing groups, and in which Cetelem was the minority shareholder, with 49 per cent.

BNP subscribed to a separate rights issue giving it a 5 per cent stake in Cofinoga. Cetelem will not subscribe to the rights issue, diluting its stake in Cofinoga to 44 per cent. However, it has the right to increase its stake in Laser to 20 per cent if BNP raises its stake in Cofinoga to 10 per cent.

Andrew Jack, Paris

■ EGYPT

OGFIC buys state-owned rival

Egypt's leading private-sector manufacturer of domestic appliances has become the market leader in its field after taking a majority stake in the sector's largest state-owned manufacturer. The ground-breaking $42m deal marks a further step to the government's plans to speed up privatisation.

The Olympic Group Financial Investment Company, in partnership with an unnamed foreign investor, bought a 61 per cent stake in Ideal, until now Egypt's leading producer of electric appliances. A further 14 per cent was bought by a second consortium, earning the state a total E£236m ($69m) from the sale. Through its subsidiaries OGFIC currently has 85 per cent of the Egyptian market in domestic heaters and 74 per cent of the market in water heaters. Its dominance will now extend across the spectrum of domestic appliances.

Mark Huband, Cairo

■ PHARMACEUTICALS

Abbott in Hungarian R&D deal

Abbott Laboratories, the US pharmaceuticals company, yesterday signed a research and development agreement with Biorex Research and Development of Hungary for developing and selling Bimoclomol, a patented compound for diabetic complications. Abbott will invest $28m and take a 13 per cent stake in BRX, the UK-based holding company which owns 100 per cent of Biorex. In return, Abbott will gain the exclusive worldwide license for Bimoclomol, as well as other rights for compounds now under development.

Bimoclomol has recently completed Phase 2 trials in the UK and Hungary. Initial indications show it has an effect on various diabetic complications such as neuropathy, the degeneration of the nervous system which leads to limb amputations, and diabetes-related kidney failure.

Kester Eddy, Budapest

■ NATWEST BANK

China group eyes Asia equity arm

China Everbright, the business arm of China's State Council, is in talks with NatWest Bank of the UK with a view to buying parts of its Asian equity operation.

The group, which would make the purchase through China Everbright Securities, its unlisted brokerage arm, is one of several parties now in talks with the UK bank, NatWest Markets said yesterday. Other suitors include J.P. Morgan and Donaldson Lufkin & Jenrette of the US.

China Everbright has previously stated its intention to establish a fully fledged investment bank in Hong Kong. The aim would be to build on China relations and arrange overseas listings for mainland companies. NatWest, like BZW, failed to find a buyer interested in acquiring the entire investment banking operation, and Asian cash equity activities outside Japan remain on the block. NatWest Markets employs 274 people in equities in Asia excluding Japan, tha majority of whom are in cash equities. China Everbright Securities has s staff of about 60.

NatWest Markets said it was keen to conclude a sale for the remaining parts of the business as quickly as possible.

Louise Lucas, Hong Kong

COMPANIES AND FINANCE: UK

Rebel shareholders oust Cassidy as investors resort to catcalls

Liberty chairman loses fight

By Robert Wright

Rebel shareholders at Liberty, the luxury London department store, yesterday won their battle to dismiss the chairman, Denis Cassidy.

Odile Griffith, financial adviser to five members of the immediate Stewart-Liberty family, and Brian Myerson, a South African investor, were appointed as non-executive directors after a noisy extraordinary meeting.

However, the seeds of further trouble appeared to be sown when the remaining board members appointed Andrew Garety, finance director, chairman. The rebel shareholders had said they would appoint an independent chairman.

The rebels won the votes by 48 per cent to 39 per cent. The immediate Stewart-Liberty family hold 27.1 per cent of the company, while Mr Myerson holds 16.9 per cent. Having been promised 3 per cent of the votes by Manny Davidson, a property developer, the rebels were sure of 47 per cent from the outset.

The outcome of yesterday's meeting had been a foregone conclusion since last week, when the Merchant Navy Officers' Pension Fund decided not to vote its 5.4 per cent of the votes with the board. The fund eventually abstained.

Mr Garety said last night that the board very much regretted Mr Cassidy's departure. He said Mr Cassidy had played a vital role in turning the business around. His first concern was now to avoid further disruption.

The rebel shareholders refused to answer questions about their strategy for the company at the extraordinary meeting. Miss Griffith told the meeting she would be happy to answer questions afterwards but refused to add anything to the rebels' letter to shareholders at the meeting. Her refusal was met with catcalls.

Members of the wider family descended from Arthur Liberty – who hold 18 per cent of the shares – had sided with the board. Two members of the wider family – Richard Blackmore and Anthony Blackmore – spoke at the meeting. Anthony Blackmore asked for a postponement of the meeting for a week so that matters could be sorted out in private. The public row was "trampling the Liberty flower," he said.

Many of the questions at the meeting were hostile to the present board's £43m ($71m) redevelopment plans.

Brendan Corr
Shareholders attending the EGM yesterday where requests for detailed plans were made

LEX COMMENT
Racal

Sighs of relief greeted the news yesterday that Racal is finally going to do what everyone wants it to do: get out of data communications and float Racal Telecom. Quitting the former will create much red ink in the full-year results, but it is to be hoped that about £100m ($165m) can be brought in. What a pity the board did not stop the rot sooner.

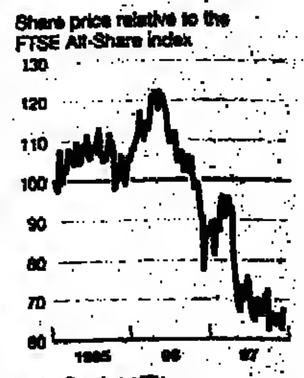
The future of Racal Telecom – the name once carried by Vodafone, chairman Sir Ernest Harrison's first telecommunications baby – is much more interesting. Partners have been sought and offers reputedly turned down. Instead Sir Ernest is going the Vodafone route: float 20-25 per cent initially and hope to reap a better price later. This way it is less embarrassing if the initial valuation comes out at nearer £400m than the much higher prices being bandied about earlier this year. The new chief executive will have to establish a strong separate identity for the business, and improve profit growth prospects.

That leaves two other healthy elements: defence electronics – always a core business – and instrumentation, now being lauded as part of the core but not mentioned under the "principal businesses" heading in June. Valuing these two at about £600m, adding in a couple of stakes and deducting debt leaves £800m–£900m for the whole, or about 300p a share.

The 65p gap between that and last night's price reflects past disappointments and the fact that the plan must still be delivered. Sir Ernest has a lot to do before he retires.

Racal Electronics

Share price relative to the FTSE All-Share index



Source: Datastream/ICV

Legal cloud over UniChem deal

By David Blackwell

Stefano Pessina, who is destined to become deputy chairman of UniChem following the agreed merger with Alliance Sante, faces criminal proceedings in two Italian districts.

UniChem this week sent out the merger prospectus to shareholders. It said that Mr Pessina would be "vigorously defending all the criminal charges on the basis that he had no awareness of, or involvement in, any of the alleged acts".

Both cases relate to a deal in 1990 when ICM Holding, in which Mr Pessina had a 40 per cent stake, bought two small manufacturing companies from GEPI, an Italian state-owned company. Mr Pessina, who was not a director of ICM, held his stake through Alleanza Farmaceutica Europa, which is not an Alliance Sante group company.

In Reggio Calabria, after an independent investigation, the district attorney asked for all charges against him to be dropped, but the judge referred the matter for trial. The separate proceedings relate to ICM subsidiaries and are at a preliminary stage.

The merger will create a health care group with sales of almost £5bn a year.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Alvis	Yr to Sept 30	72.9	(90.4)	8.11	(8.88♥)	7.8	(10.1)	2.25	Feb 27	2	3.5	3
Armour Trust	6 mths to Oct 31	12.3	(17.7)	0.422	(0.539♠)	0.8	(0.7)	0.2	May 4	0.46	-	1
Atkins (WS)	6 mths to Sept 30	175.3	(153.3)	12.1	(9.35♠)	7.9	(5.4)	2.7	Jan 23	2.25	-	6.9
Atlantic Telecom	6 mths to Sept 30	5.39	(4.01)	4.01L♠	(0.3♥)	7.93L†	(0.99)	-	-	-	-	nil
Copyright Promot'n	6 mths to Oct 31	9.11	(8.69)	0.061	(0.085L)	0.61	(0.85L)	nil	-	0.5	-	0.5
Countryside Props	Yr to Sept 30	195.7	(180.3)	9.31	(3.14)	10.6	(3.4)	2	Apr 9	1.5	3	2.25
Dail Mail	Yr to Sept 28	1,200	(1,007)	143.7	(85.5)	92.4	(64.1)	18	Feb 13	14.1	23	18.4
Fletcher King	6 mths to Oct 31	2.48	(2.13)	0.144	(0.072)	1.2	(0.5)	0.75	Mar 2	0.5	-	1.75
Galen	Yr to Sept 30	39.3	(74.8)	11.4♥	(8.51)	8.03	(6.21)	0.367	Feb 28	-	0.367	-
Harvey Nichols	6 mths to Sept 27	60.9	(49.2)	6.07	(5.51)	7.4	(6.4)	2.1	Feb 12	1.9	-	5.8
Hill & Smith	Yr to Sept 30	81.3	(80.7)	1.22♠	(2.92♠)	2.56	(5.85)	2.1	-	4.2	4.2	6.2
Hunters Armley	Yr to Sept 30	57.9	(54.3)	3.86	(1.83)	10.45	(4.65)	3	Feb 20	3	4.5	4.5
LucasVarity	9 mths to Oct 31	3,513	(3,402⁑)	251♥	(-)	12	(-)	-	-	-	-	2.25
MS Intl	6 mths to Nov 1	14.3	(17.3)	0.2	(0.121♥)	0.4	(0.2)	0.1	Feb 7	0.1	-	0.6
Pathfinder Props Φ	6 mths to Sept 30	15.9	(-)	0.115L♠	(-)	-	(-)	-	-	-	-	-
Racal Electronics	6 mths to Oct 10	596.4	(602)	9.22♠	(21.2♠)	1.99	(4.78)	2.1	Feb 7	2.1	-	6
Reliance Security	6 mths to Oct 31	57.8	(49.4)	2.1	(1.11)	6.3	(3.3)	1.85	Jan 30	1.75	-	6.75
Shield Diagnostics	6 mths to Sept 30	3.46	(2.73)	0.271♥	(0.291L)	1.29†	(1.56L)	-	-	-	-	-
SHL	Yr to Sept 30	41.9	(31.9)	2.23L♠	(7.77)	1,216L♠	(1,031)	-	-	-	-	-
Tilon	Yr to Sept 30	12	(11.7)	1.54	(1.73)	8.55	(10.85)	3.5	Feb 26	3.4	5.2	5
Worthington	6 mths to Sept 30	19	(14)	1.92	(1.01)	3.32†	(2.74)	1	Apr 2	0.9	-	2.6

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Dunedin Smaller	Yr to Oct 31	417.57	(402.46)	1.98	(1.6)	11.78	(9.54)	7	Feb 10	6	10	9
Martin Currie Japan	6 mths to Nov 30	79.4	(100.4♦)	0.001L	(0.02L)	nil	(0.1L)	-	-	-	-	-
Oxford Tech VCT	6 mths to Aug 31	95	(-)	0.028	(-)	0.843	(-)	-	-	-	-	-
Tor	3 mths to Oct 31	-	(-)	-	(-)	-	(-)	11	Jan 30	11	-	44

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ⁑Pro forma. ΦAim stock. ♦At May 31.

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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Prices for Trading on 12.12.97 — Final Prices for Trading on 14.11.97

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TSUoS of system price £/MWh
0030	18.74	19.96	20.47	0.92
0100	21.61	19.96	20.47	0.92
0130	26.52	19.96	20.47	0.92
0200	65.92	19.96	20.47	0.92
0230	55.92	18.94	19.46	0.92
0300	26.52	19.96	20.47	0.92
0330	26.52	19.96	20.47	0.92
0400	26.52	19.96	20.47	0.92
0430	21.61	19.96	20.47	0.92
0500	18.74	18.71	19.22	0.92
0530	13.00	10.46	10.46	0.00
0600	18.98	10.47	10.47	0.00
0630	17.66	20.62	21.14	0.92
0700	30.25	20.62	21.14	0.92
0730	33.88	29.20	29.72	0.92
0800	43.60	29.20	29.72	0.92
0830	49.40	29.21	29.72	0.92
0900	49.42	34.85	35.37	0.92
0930	49.41	36.66	37.18	0.92
1000	49.41	43.90	44.42	0.92
1030	43.60	43.90	44.43	0.92
1100	43.60	43.91	44.44	0.92
1130	39.00	46.45	46.98	0.92
1200	39.00	46.45	46.96	0.92
1230	36.66	46.44	46.96	0.92
1300	38.99	46.43	46.95	0.92
1330	36.66	36.64	37.16	0.92
1400	36.65	28.86	29.39	0.92
1430	36.65	28.87	29.39	0.92
1500	36.65	28.87	29.39	0.92
1530	33.88	28.87	29.39	0.92
1600	36.88	12.00	12.00	0.00
1630	56.17	46.56	47.44	0.92
1700	64.76	50.82	52.65	0.92
1730	72.67	62.04	64.11	0.92
1800	86.30	66.61	66.41	0.92
1830	61.53	48.56	48.64	0.92
1900	52.96	48.02	48.64	0.92
1930	46.06	44.42	44.96	0.92
2000	40.43	32.71	33.23	0.92
2030	40.19	28.87	29.39	0.92
2100	30.58	28.87	29.39	0.92
2130	30.63	22.67	23.19	0.92
2200	30.25	22.67	23.19	0.92
2230	24.44	19.35	19.87	0.92
2300	24.44	19.35	19.87	0.92
2330	13.00	10.46	10.46	0.00
2400	10.50	10.47	10.47	0.00

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, expressed to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.89/MWh becomes 1.889p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of ...

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COMPANIES AND FINANCE: UK

Racal puts data business up for sale

By Christopher Price

Racal Electronics yesterday put its lossmaking data-communications business up for sale and said it would float its telecommunications arm.

Investors welcomed the news, with shares in the defence-electronics group rising by 6 per cent to 234.5p. The decision follows a strategic review of the two businesses begun in the summer. Sir Ernest Harrison, chairman, said yesterday the options which had been chosen were "the best way of realising shareholder value".

Racal had hoped either to attract a partner to invest in Racal Telecoms, its telecoms business, or to opt for an outright sale.

However, Sir Ernest said none of the approaches whicb had been received matched the board's expectations of what the business was worth. One of these was understood to be a management buy-out worth some £400m ($660m). He added that this week's successful flotation of Energis, the telecoms arm of the National Grid, sbowed the strong market interest in telecoms issues.

Analysts said the flotation could value the business, whicb operates a national telecoms network, at £400m-£500m. No timetable has been set for the listing, which would take place in London and on the Nasdaq market in the US. A chief executive is being sought for the business.

The data-communications division, which is based in Florida and employs 2,500, is likely to be rationalised ahead of any disposal. David Elsbury, chief executive, is flying to the US immediately to oversee the sale preparations.

He said "tough decisions" would have to be made to make the business sttractive. If s buyer could not be found, the division would be broken up and the component parts sold off separately. Analysts said the business could fetch up to £100m.

Problems at the US business hit group pre-tax profits, which fell 52 per cent to £9.2m in the six months to October 10. Turnover from continuing operations rose 13 per cent to £446.1m.

Losses from data communications rose by 75 per cent to £21.9m, following delays in the launch of new products. Sales fell £24.2m to £124.9m.

There were problems too at Racal's radio-communications business, with losses of £6.2m against profits of £1.9m. However, Mr Elsbury said losses would be reduced in the second half because of new orders.

Profits also fell at the telecoms division to £16.5m (£20.8m), mainly because of tariff reductions from the railway companies, which are among Racal Telecom's biggest customers. There was also e £2.4m charge to integrate BRT, the former telecoms business of the rail industry, which Racal bought last year, and Racal Network Services, into Racal Telecom.

Trevor Humphries

Sir Ernest Harrison: realising shareholder value

LucasVarity on course for £160m savings

By Andrew Edgecliffe-Johnson

LucasVarity is on track to meet its target of £40m ($66m) merger-related savings this year and £120m in 1998, Victor Rice, chief executive, said yesterday.

The group, formed in September 1996 by the combination of Lucas Industries of the UK and Varity Corporation of the US, saved £27m from the merger and 3,000 job cuts in the nine months to October 31.

It also met the self-imposed goal of improving operating profit margins in each quarter. Third-quarter group margins were 8.5 per cent – up from 7.9 per cent in the second quarter and 7.1 per cent in the first.

Mr Rice said LucasVarity had seen organic sales growth of 5.6 per cent in the year to date, despite "what bave essentially been low-growth markets".

He repeated his earlier warnings that sales growth would be modest for the full year, and that the lower number of working dsys in the rest of the period would mean a drop in sales inthe fourth quarter.

Third-quarter pre-tax profits of £84m were down from the second-quarter figure of £95m, which included £18m of exceptional disposal gains. Nine-month profits were £251m, despite a £15m effect from the strong pound. No comparable figure was available for 1996 when profits were hit by the £250m exceptional cost of the integration plans.

Diesel systems, the Perkins business being sold to Caterpillar for $1.33bn (£800m), was the only division to register a drop in sales, profits and margins in the third quarter.

Mr Rice said this reflected the strong pound and further weakness in large engines for power generators. Sales had been temporarily disrupted by the introduction of new engine assembly and painting facilities.

With net debt of £496m, gearing was 83 per cent on October 31, down from 90 per cent three months before.

Mastering the art of salesmanship

Auction houses have departed from their traditional roles, writes Antony Thorncroft

On November 10 in New York, Christie's raised $206m in less than two hours by disposing of 57 works, including 12 paintings by Picasso, collected by Victor and Sally Ganz, who ran s costume jewellery and toy business.

This sum was more than double the annual sales achieved st Christie's, South Kensington, the London subsidiary which eacb year bolds bundreds of anctions.

Successes such as this are expected to give Christie's sales of over £1.2bn and lift it to the number one spot ahead of its arch-rival Sotheby's for the first time in 40 years.

Its shares, which jumped on news of a possible bid, were down 14p at 292p yesterday. The identity of the bidder is unknown, bnt Joseph Lewis, the Bahamas-based investor, who owns 29.9 per cent of Christie's shares, is understood to have ruled bimself out. It is thought the bidder is a consortium advised by SBC Warburg, Christie's brokers.

Both Christie's and Sotheby's have histories stretching back over two centuries, are resolutely and prondly British, and totally dominate their industry.

Traditionally, Christie's strength was its links with the aristocracy, who bad popped their Old Masters through King Street for generations, while Sotheby's, under the leadership of the enigmatic Peter Wilson, had persuaded the new rich that they could get higher prices for their Impressionists by selling at Sotheby's rather than through a dealer.

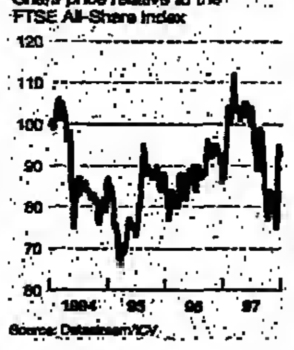
In 1983, Sotheby's was bought by US shopping mall tycoon Alf Taubman and its centre of gravity moved to New York. Suddenly works of art were seen as good investments by the new rich of the 80s.

Both houses boomed in the competitive world of discounted charges for the sellers of lucrative collections, and loans to prospective buyers, but Sotheby's always had the edge.

Then in 1990, the art market collapsed and the turnovers of both fine art snctioneers more than halved in 12 months. In the slow recovery, it was Christie's which showed more acumen under Christopher Davidge, whose father had worked there as a porter. Suddenly Christie's was securing the better collections, attracting the headlines. By the end of last year, the two auction bouses were neck and neck in size when they both topped £1bn in sales for the first time sice 1990.

Christie's International

Share price relative to the FTSE All-Share Index



Source: Datastream/ICV

But growtb has been achieved at a price. In theory, Sotheby's and Christie's exist to anction works of art and other collectables. In practice most of their energy goes towards securing leading collections.

Christie's secured the Ganz collection in the face of fierce competition from Sotheby's by offering the couple's heirs the better deal. This involved a guaranteed sum whatever happened on the night in the auction room: a figure of $130m was rumoured.

In theory, the sale was a great success and Christie's shonld have made a substantial profit. But after the auction, its share price fell sharply and the main gain from selling Ganz may have been publicity.

After the costs of organising the event – the most expensive auction ever mounted – and giving the heirs their cut, there was little profit left.

At least Christie's did not lose money. The next night Sotheby's sold the Sharp collection of French paintings. It brought in $41m against a guarantee of about $55m. Fortunately, Sotheby's found a buyer for one of the unsold lots, a $9m Modigliani, after the sale, but it showed up the dangers of guarantees. A bad slip-up and a year's profits could disappear in bours.

The potential risks in the new way of doing business make auction bouses speculative places. All Sotheby's voting shares are owned by Mr Taubman, so, although the Bass family of Texas has been building up a sizeable interest, tbe future of the company depends on Taubman.

He is currently making little profit from his investment, but be enjoys the art world, is s big collector himself, and likes the social contacts it provides.

In contrast, Christie's is showing larger profits hut seems to like living dangerously. Tbe expertise of its New York team in the area of 20th century art has secured it big collections this year but st some risk.

In London, Christie's is blurring the traditional role between suction bouse and dealer. It has acquired two well estsblisbed dealers, Spinks and Leger and set up with another dealer, Thomas Gibson, a secretive company which trades privately, buying and selling art for rich clients.

In the past anction bouses were the wholesalers, with dealers – the retailers – tbeir main clients. Now Sotheby's and Christie's aim to sell directly to collectors and to offer every art world facility in a range of services.

Energis' FTSE hopes dashed

By Alan Cane

Hopes that Energis, the telecommnnications company floated this week, would become a member of the FTSE 250 index were dashed yesterday when the committee which oversees the FTSE indices announced plans to review its qualification rules.

The move will be a blow for Dresdner Kleinwort Benson, global co-ordinator for the float, whicb had been hoping that the share structnre would have allowed Energis into the FTSE series of indices, the main UK performance benchmarks.

The National Grid, Energis' parent and a FTSE 100 member, has retained a 74.3 per cent stake.

The UK index committee said it wished to ensure that wbere a constituent company had an interest, on a fully dilnted basis, of 50 per cent or more in another company, the second company was not inclnded in the index, since that would create donble counting.

Triplex admits talks over bid

By Richard Wolffe, Midlands Correspondent

Shares in Triplex Lloyd rose 14 per cent to 263½p yesterday after the specialist castings group sdmitted it was in takeover talks with an unnamed company.

Triplex had earlier denied it was in talks with Doncasters, the Midlands engineer which has a US listing, and was discussing a price of 280p a share.

Bnt yesterday Triplex revealed it was considering a possible bid at 280p, which would value the Black Country-based group at £183m ($302m). The talks are expected to be concluded within the next two weeks.

Doncasters is rumoured to be planning the break-up of Triplex, selling off its automotive business. It is also thought to be considering the merger and rationalisation of Triplex's profitable power and petrochemical operations.

Doncasters has a strong position in producing precision components for industrial gas turbines, as well as the aerospace industry. The group has refused to comment on the possibility of a bid for Triplex.

INTERNATIONAL CAPITAL MARKETS

US Treasury prices rise sharply

GOVERNMENT BONDS

By John Labate in New York and Vincent Boland in London

Strength in overseas markets and a morning consumer spending release sent US TREASURIES sharply higher in early trading yesterday, with the long bond yield falling to just above the 6 per cent level.

The US performance led all government bond markets higher, with prices given a boost overnight from overseas markets, as Asian uncertainty mounted and the South Korean currency plunged.

By early afternoon the benchmark 30-year Treasury bond was 23/32 higher at 101 18/32, yielding 6.014 per cent. The 10-year note had gained 13/32 to 102 3/32, yielding 5.812 per cent, while the two-year note was up 1/8 to 99 15/32, yielding 5.658 per cent.

Analysts were surprised by November's 0.2 per cent rise in consumer spending, reported yesterday morning. Similar figures for September and October were also revised downward.

Signs of an economic slowdown were bullish for the bond market a week ahead of the next meeting of the Federal Reserve Open Market Committee next week.

"It looks like consumers have taken a pause, but we'll need to see numbers for the Christmas season to be sure," said Elliott Platt, director of economic research at Donaldson, Lufkin & Jenrette.

Consumer confidence could recover in the first quarter of 1998, as it did earlier this year, with heavy spending on appliances and furniture, he added.

Investors are now overweight US Treasuries while exposure to high-yielding European markets has dropped following sharp yield spread convergence, according to the latest survey of bond market trends in the fourth quarter by Paribas, the French bank.

Exposure to US bonds is at its highest since tha survey began in 1992-93, with Treasuries offering the highest total returns in the last quarter. Investors also retain substantial exposure to UK and German bonds. Bunds, in particular, are "widely seen as the safest haven among the major bond markets", Paribas said.

UK GILTS were sharply higher, rising nearly a full percentage point. Analysts said the main factor in the rise was the turmoil on equity markets – the FTSE 100 share index fell 1.9 per cent yesterday – but the market was also cheered by the US retail sales data and by a CBI survey that showed UK manufacturing industry orders rose slightly in December, despite the strength of the pound.

The March future settled 15/32 higher at 121¼ after hitting a naw contract high of 121 15/32 earlier, although volume was not especially heavy for a rise of that magnituds, with 85,000 contracts traded. Meanwhile, the yield spread over 10-year bunds narrowed to 109 basis points from 111 points.

GERMAN BUNDS led European markets higher on safe-haven buying and the view that the Asian crisis was another reason for the Bundesbank not to raise interest rates.

Graham McDevitt, head of global bond strategy at Paribas, said the German market was better positioned going into 1998 than the US market, which was why bunds had been outperforming in recent weeks.

The March contract settled up 0.58 at 104.34 after earlier hitting a new high of 104.38, although again volumes were moderate in both London and Frankfurt. The yield on 10-year bunds fell to 5.31 per cent, in what dealers said was moderate but active buying by domestic and foreign investors.

SWEDISH BONDS largely shrugged off a widely-expected interest rate rise by the Riksbank, which raised the key repo rate by 25 basis points effective from December 16. The yield on the 10-year bond fell 11 basis points to 6.05 per cent in an otherwise quiet market.

SPANISH BONOS ended at new highs ahead of today's release of inflation figures for November that are expected to prepare the ground for an interest rate cut from the Bank of Spain, which has lifted the market to its current levels.

The December contract settled 0.56 higher at 105.98 after briefly breaking above 106 in active turnover.

Italian repos to be traded on-screen

By Paul Betts in Milan

Italian treasury repurchase agreements will be traded for the first time today on the official screen-based government bond market, the Mercato Telematico dei Titoli di Stato (MTS).

Until now, Italian repos have traded over-the-counter, but the anthorities have decided to include a set of repo contracts on the screen-based system to create greater liquidity in the market.

The treasury and the Bank of Italy consider the move a strategic step to enhance Italy's competitive position in the debt market ahead of European monetary and economic union.

"Once the euro arrives, every sovereign issue will have to compete and the Italian monetary authorities are gearing up for that day," explained a Milan banker.

The start of on-screen repo trading will also help Italy align its financial markets to the euro, added a Bank of Italy official.

Special repo and general collateral repo contracts will be traded on-screen from 8am to 6.30pm from today, involving all government issues quoted on the MTS. Trading will be on a registered basis in contrast to the cash market, where trading is anonymous.

The addition of screen-based repo trading brings Italy into line with other leading European bond markets, where repo trading accounts for a substantial portion of bond market activity. The next move could see the introduction of a standard contract for repo agreements, which are usual in other markets.

Credit rating agencies under fire on Korea

By Simon Davies and Edward Luce

The reputation of the international credit rating agencies came under fire again yesterday, when Standard & Poor's downgraded South Korea's sovereign rating by three notches to BBB minus.

The move follows Moody's recent downgrading of Korea, providing further ammunition for critics who argue that the agencies have been following the markets rather than leading them.

"How can Korea go from a highly-rated country to almost junk-bond status overnight?" asked one bond official in London. "It smacks of desperation and inconsistency."

Christopher Huhne, head of sovereign ratings at Fitch IBCA, the world's third largest rating agency, said all the agencies had been "wrong on Korea". Fitch IBCA yesterday downgraded Korea from A to BBB minus.

"We've all been behind the curve on Korea," said Mr Huhne. "We were all too focused on how low Korea's external debt was as a proportion of export receipts, so we underestimated the danger of a Korean default on its short-term debt."

He argued that the agencies had done better elsewhere in the region, where much of the recent crisis was anticipated.

"Korea has been more dramatically downgraded than any other country and in many cases you could argue that the downgrades were perfectly well-timed judging by market contagion," he said.

Standard & Poor's said it had only decided to re-rate Korea after seeing the new figures on the country's short-term debt obligations. At $100bn, these were much higher than previously indicated. In addition, foreign exchange reserves had fallen to less than $10bn, or under one month worth of imports.

Rating agencies are certainly an easy scapegoat for fund managers sitting on hefty losses from what was the big growth fad of the early part of the year.

Colin Hart, head of bond investment at Gartmore Investment Management, said: "I think the agencies have been guilty of following the market, but they are always going to be. If you're in that business, you can't be seen to change ratings at the drop of a hat," he said.

Moreover, Moody's was early to spot the problems in Thailand, issuing a warning in May last year about the extent of the build-up in short-term foreign debt.

Vincent Truglia, managing director of Moody'a Investors Service, argues that the low level of bond issuance by Asian governments makes the risk of default far lower than in a Latin American financial crisis. So Moody's had been quicker to downgrade ratings for bank deposits than government bonds.

Furthermore, collapsing market sentiment has deteriorated the environment for short-term debt, making it harder for borrowers to roll over short-term financing.

"Back in June last year, I don't think anyone could have had perfect foresight as to how we could get to a liquidity problem and a crisis of confidence," Mr Truglia said.

Sweden raises 10-year dollars

INTERNATIONAL BONDS

By Edward Luce in London and Louise Lucas in Hong Kong

The Kingdom of Sweden yesterday became the first investment grade sovereign to issue a 10-year fixed-rate dollar bond this year.

The $500m issue, which follows the World Bank's 10-year offering earlier this week, was only the second fixed-rate issue in that maturity since the crisis in October. It followed Sweden's five-year dollar offering last month, which in turn was also the first sovereign fixed-rate bond in that maturity since the crisis.

Bankers said yesterday's deal, priced to yield 28 basis points over Treasuries, reflected the spread-tightening in the high-quality end of the market over recent weeks. Sweden's five-year issue was priced to yield 30 basis points over Treasuries and is now trading at a spread of 18 basis points. "There's very little supply around, so that's a big advantage," one banker said.

Salomon Smith Barney, sole underwriter, said about 20 per cent of the issue went to Asian investors.

Korea's push on the global markets looked sbaky in New York after talk of a restructuring of its planned US$2bn Yankee bond.

The Korean Development Bank, which borrows on behalf of the government of South Korea, was still considering a 10-year bond, with a three-year put option. But officials said the KDB bond was likely to be delayed in the bope that market conditions would improve.

Meanwhile, Goldman Sachs was braced for a termination of the US$300m five-year bond it led for the KDB earlier this year.

The bond has a put option, enabling investors to retrieve tbeir principal at par if the bank's long-term foreign currency debt rating is downgraded to Baa1 or lower by Moody's or to BBB+ or lower by S&P. Moody's yesterday downgraded the KDB by two notches, from A3 to Baa2. Bankers said investors were likely to redeem the bond when the next coupon falls due, at the end of the month.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Kingdom of Sweden	500	6.125	99.265R	Jan 2008	0.65R	+28(6⅛%Aug07)	Salomom Smith Barney
Provident Bank HELT(a)‡	250	-	-	-	-	-	Lehman Brothers
Trench Electric(b,s)	160	10.25#	100.00R	Dec 2007	3.00R	+445(6⅛%-07)	CSFB New York
■ YEN							
SBAB(c)*	10bn	4.60#	100.00	Dec 2000	1.62	-	IBJ Intl/Wako Intl
■ ITALIAN LIRE							
World Bank(d)‡	150bn	(d1)	101.275	Jan 2010	1.875	-	(d3)
■ EUROS							
DSL Finance	100	5.125(s)	100.075R	Dec 2002	0.25R	+4(5⅛%Jul02)	Paribas
■ RAND							
World Bank(e)	4bn	zero	2.94	Dec 2028	0.25	-	Hambros Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: Fixed re-offer price; fees shown at re-offer level. a) Home Equity Loan Trust 97-4. 4-tranche mortgage-backed deal. b) Callable on Dec 02 at 105⅛ falling 1.708%pa to par. c) Redeemed at US$768.34 per Y100,000 note. US$ redemption adjustable Dec 97 if rate below Y130.15/US$. d) L450bn launched 3/12/97 increased to L600bn. d1) 12% to Jan 99, then 7% to Jan 01, then 15% -2 x 12-mth Libor, min 2½%. d3) Joint book runners: BCI, Caboto, Cariplo, Goldman, JPM, Sanwa. e) R2bn launched 2/12/97 increased to R3bn. s) Short 1st coupon

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Dec 11	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	03/99	8.250	101.1328	5.24	-0.08	+0.06	+0.26	-0.88
	10/07	10.000	127.0468	6.23	-0.10	+0.10	+0.21	-0.95
Austria	09/99	7.000	104.1200	4.50	-0.03	+0.01	-0.18	+0.67
	07/07	5.625	101.6300	5.40	-0.07	-0.08	-0.28	-0.46
Belgium	04/99	7.000	103.5600	4.24	-0.05	-	-0.18	+0.88
	03/07	8.250	105.5900	5.46	-0.06	-0.07	-0.28	-0.48
Canada	03/99	4.000	99.0800	4.76	+0.10	+0.22	+0.85	+0.48
	06/07	7.250	110.5000	5.77	+0.04	+0.20	+0.28	-0.72
Denmark	12/99	6.000	102.4600	4.67	-0.08	-0.04	-0.18	-0.45
	11/07	7.000	109.0800	5.77	-0.06	-0.09	-0.36	-0.95
Finland	01/99	11.000	107.0560	4.17	-0.02	-0.06	-0.24	+0.33
	04/06	7.250	111.4840	5.49	-0.04	-0.06	-0.31	-0.98
France	11/99	7.000	104.8800	4.27	-0.08	-0.05	-0.20	+0.71
	10/04	6.750	109.5600	5.08	-0.10	-0.09	-0.28	-0.16
	10/07	5.500	101.3400	5.32	-0.08	-0.08	-0.32	-0.45
	10/25	6.000	101.8800	5.86	-0.07	-0.06	-0.35	-0.87
Germany	06/99	3.500	99.0800	4.15	-0.09	-0.07	-0.18	+0.89
	07/04	6.750	109.0300	5.09	-0.08	-0.09	-0.27	-0.40
	07/07	6.000	104.9700	5.32	-0.07	-0.07	-0.30	-0.51
	07/27	6.500	108.4900	5.88	-0.07	-0.07	-0.32	-0.87
Ireland	04/99	6.250	101.4300	6.08	-0.08	-0.12	-0.47	-1.08
	08/06	8.000	115.7200	5.85	-0.08	-0.12	-0.46	-1.21
Italy	05/00	6.000	102.2100	5.01	-0.09	-0.04	-0.43	-1.53
	05/02	6.250	103.6600	5.31	-0.07	-0.04	-0.39	-1.61
	07/07	6.750	107.6400	5.70	-0.07	-0.04	-0.46	-1.93
	11/26	7.250	114.1800	6.18	-0.07	-0.03	-0.49	-1.97
Japan	06/99	4.800	106.4500	0.50	-0.01	+0.04	+0.02	-0.27
	12/02	4.800	117.2300	1.24	-0.02	+0.04	-0.04	-0.59
	09/05	3.000	109.5900	1.68	-0.03	-0.02	-0.06	-0.79
	03/17	3.500	115.0100	2.51	-0.03	-	+0.03	-0.78
Netherlands	06/99	7.500	104.5400	4.28	-0.06	-0.05	-0.18	+0.82
	02/07	5.750	103.2200	5.29	-0.08	-0.07	-0.31	-0.52
New Zealand	02/00	6.500	98.4385	7.30	-0.09	-0.27	+0.43	+0.45
	11/06	8.000	106.4051	7.01	-0.01	+0.31	+0.34	-0.21
Norway	01/99	9.000	104.9600	4.37	-0.05	+0.02	-0.15	-0.32
	01/07	6.750	108.7600	5.50	-0.05	-0.05	-0.30	-0.91
Portugal	03/99	8.500	104.4533	4.77	-0.05	-0.05	-0.35	-1.44
	02/07	6.625	106.5255	5.89	-0.08	-0.07	-0.35	-1.32
Spain	07/99	7.400	104.2358	4.60	-0.05	-0.03	-0.32	-1.39
	03/07	7.350	112.2929	5.61	-0.09	-0.08	-0.39	-1.41
Sweden	01/99	11.000	106.1320	5.09	-0.10	-0.11	-0.08	-0.16
	08/07	8.000	113.9090	6.05	-0.11	-0.10	-0.34	-0.98
Switzerland	03/99	4.000	102.8500	1.64	-0.14	-0.18	-0.45	-0.54
	06/07	4.500	108.7500	3.40	-0.07	-0.10	-0.28	-0.55
UK	08/99	6.000	98.6328	6.88	-0.06	-0.11	-0.33	+0.30
	11/04	6.750	101.7500	6.43	-0.11	-0.15	-0.38	-0.98
	12/07	7.250	107.0938	6.28	-0.11	-0.16	-0.39	-1.20
	06/21	8.000	121.8750	6.22	-0.09	-0.16	-0.32	-1.50
US	07/99	5.875	100.2890	5.68	-0.07	-0.05	-0.07	-0.13
	05/04	7.250	107.6090	5.81	-0.09	-0.02	-0.11	-0.33
	08/07	6.125	102.3280	5.81	-0.09	-0.03	-0.08	-0.58
	08/27	6.375	104.4140	6.05	-0.08	-0.03	-0.14	-0.58
ECU	03/99	5.000	100.5000	4.56	-0.08	-0.06	-0.19	-0.38
	04/07	5.500	100.3800	5.44	-0.06	-0.08	-0.35	-0.69

London closing. *New York mid-day. Source: Interactive Data/FT Information. Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Dec 11	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	6.27	+0.95	+0.47	New Zealand	7.02	+1.70	+1.22
Austria	5.40	-0.05	-0.40	Norway	5.50	+0.18	-0.30
Belgium	5.46	-0.14	-0.34	Portugal	5.69	+0.37	-0.11
Canada	5.77	+0.45	-0.03	Spain	5.61	+0.29	-0.19
Denmark	5.77	+0.45	-0.03	Sweden	6.05	+0.73	-0.25
Finland	5.49	+0.17	-0.31	Switzerland	3.40	-1.92	-2.40
France	5.32	-	-0.48	UK	6.28	+0.96	+0.48
Germany	5.32	-	-0.48	US	5.80	-0.48	-
Ireland	5.65	+0.33	-0.15	ECU	5.44	-0.12	-0.36
Italy	5.70	+0.38	-0.10				
Japan	1.67	-3.65	-4.13				
Netherlands	5.29	-0.03	-0.51				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Dec 11	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB-	93.7441	8.91	-0.01	+0.46	+3.06
Poland	07/00	7.750	BBB-	102.3020	6.72	-0.26	+0.15	+1.02
Russia	11/01	9.250	BB-	93.1415	11.50	+0.95	+1.37	+5.78
■ LATIN AMERICA								
Argentina	01/17	11.375	BB	100.2500	11.33	+0.71	-0.40	+5.43
Brazil	11/01	8.875	BB-	95.0000	10.49	+0.91	-0.85	+4.77
Mexico	01/07	9.875	BB	101.0000	9.70	+0.33	-0.27	+3.90
■ ASIA								
China	07/06	7.750	BBB+	104.3194	7.05	-0.05	-0.25	+1.26
Philippines	10/16	8.750	BB+	90.7169	8.84	-0.21	-0.41	+3.95
Thailand	04/07	7.750	A-	89.1764	9.54	+0.06	-0.61	+3.74
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	101.8092	8.29	+0.20	-0.05	+2.59
South Africa	12/99	9.625	BB+	103.8181	7.53	+0.23	+0.68	+1.88
Turkey	05/02	10.000	B	100.6926	9.80	-0.27	-0.02	+4.05
■ BRADY BONDS								
Argentina	03/23	5.500	BB	69.7500	8.02	+0.18	-0.42	+3.06
Brazil	04/24	5.250	BB-	67.8800	9.16	-0.18	-0.50	+3.19
Mexico	12/19	6.250	BB	80.5000	8.17	+0.10	-0.30	+2.25
Venezuela	03/20	6.750	B+	83.5000	8.40	-0.06	-0.10	+2.47

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	100.92	101.36	+0.64	101.44	100.90	98,989	58,794
Mar	100.46	100.88	+0.62	100.98	100.44	91,774	103,614
Jun	99.96	100.30	+0.62	99.98	99.88	102	12

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
96	3.96	3.97	4.04	-	0.03	0.11
97	2.96	3.02	3.13	-	0.08	0.19
98	1.97	2.13	2.27	0.01	0.18	0.32
99	1.04	1.33	1.51	0.08	0.37	0.55
100	0.33	0.70	0.90	0.37	0.74	0.93

Est. vol. total, Calls 4,670 Puts 9,227. Previous day's open int., Calls 70,723 Puts 102,493.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	103.92	104.34	+0.58	104.38	103.86	180975	257320
Jun	103.35	103.73	+0.61	103.70	103.33	391	268

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Feb	PUTS Mar	PUTS Jun
10400	0.50	0.81	1.03	1.18	0.18	0.47	0.69	1.46
10450	0.21	0.54	0.76	0.96	0.37	0.70	0.92	1.75
10500	0.07	0.33	0.54	0.79	0.73	0.99	1.20	2.06

Est. vol. total, Calls 32293 Puts 16554. Previous day's open int., Calls 141154 Puts 158583.

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	103.53	103.90	+0.40	103.92	103.52	112,938	189,227

■ NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	103.55	103.86	+0.40	103.87	103.53	4,724	8,537
Jun	-	103.28	+0.40	-	-	-	-

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	114.82	115.30	+0.63	115.31	114.75	44631	112648
Jun	114.60	114.73	+0.69	114.60	114.60	10	58

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Mar	CALLS Jun	PUTS Mar	PUTS Jun
11500	1.12	1.35	0.82	1.62
11550	0.85	1.13	1.05	1.90
11600	0.62	0.94	1.32	2.21

Est. vol. total, Calls 3842 Puts 4505. Previous day's open int., Calls 29634 Puts 31335

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	105.58	105.98	+0.56	106.01	105.56	60,951	54,319
Mar	105.15	105.58	+0.61	105.61	105.12	38,381	58,628

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	120-10	120-28	+0-29	120-30	120-09	5113	28235
Mar	120-24	121-18	+0-30	121-19	120-22	86222	164378

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Feb	PUTS Mar	PUTS Jun
121	0-51	1-19	1-39	[illegible]	0-19	0-51	1-07	[illegible]
122	0-19	0-50	1-06	[illegible]	0-51	1-18	1-38	[illegible]
123	0-05	0-26	0-48	[illegible]	1-38	1-61	2-15	[illegible]

Est. vol. total, Calls 7695 Puts 3101. Previous day's open int., Calls 46603 Puts 22787

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	100.00	100.40	+0.60	100.48	100.00	1,039	7,283
Mar	99.74	100.14	+0.60	100.18	99.74	879	2,005

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	118-29	118-24	+1-02	120-01	118-29	5,811	112,366
Mar	118-17	119-18	+1-03	119-28	118-28	259,126	569,424
Jun	118-24	119-07	+1-01	119-14	118-24	2,601	18,725

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol.	Open int.
Mar	130.06	-	-	130.13	129.95	1006	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

US CORPORATE BONDS

Dec 10	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	07/02	7.25	AA-	103.7466	6.28	-0.07	+0.01	+0.44
NY Tel	08/25	7.00	A+	97.4279	7.21	-0.03	-0.01	+1.12
CWE	05/08	8.00	BBB	108.2892	6.87	-0.04	-	+0.97
■ FINANCIALS								
GECC	05/07	8.75	AAA	115.9211	6.46	-0.05	-0.01	-0.56
Banc One	08/02	7.25	A+	103.5375	6.35	-0.07	+0.04	-0.51
US West	01/07	7.30	BBB+	102.3470	6.94	-0.05	-0.03	+1.04
■ INDUSTRIALS								
WMX Tech	04/99	6.25	A-	99.7627	6.43	-0.08	-0.11	+0.71
Wal Mart	05/02	6.75	AA	101.8884	6.25	-0.07	+0.02	-0.41
Dayton Hud	06/21	8.70	BBB+	128.0923	7.20	-0.03	-0.04	+1.11
■ AGENCIES								
FHLMC	04/07	7.14	N/A	106.4430	6.21	-0.02	+0.02	+0.31
SLMA	03/00	7.50	N/A	103.2912	5.90	-0.08	+0.04	+0.13
FNMA	02/16	8.95	N/A	127.2623	6.50	-0.03	-0.03	+0.41
FFCB	06/06	8.95	N/A	117.8522	6.20	-0.05	+0.01	+0.30
■ HIGH YIELD								
Stone Cont	02/01	9.88	B	102.0000	0.00	-	-	-
AK Stl	12/01	8.13	BB-	103.7500	0.00	-	-	-
Pacelta	06/04	10.75	B-	97.7500	0.00	-	-	-

New York closing. Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: semi-annual basis.

US INTEREST RATES

Latest / Treasury Bills and Bond Yields

Prime rate	8½	One month	-	Two year	5.66
Broker loan rate	7¼	Two month	-	Three year	5.70
Fed.funds	5⅞	Three month	5.14	Five year	5.75
Fed.funds at intervention	-	Six month	5.38	10-year	5.81
		One year	5.46	30-year	6.01

INTERNATIONAL BONDS

Dec 11	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ EURO DM								
EIB	02/07	6.750	AAA	102.5500	5.39	-0.07	-0.32	+0.07
Spain	01/07	5.750	AA	101.7900	5.49	-0.06	-0.29	+0.17
Philip Morris	03/04	5.375	A	99.3100	5.50	-0.09	-0.21	+0.41
ABN AMRO FRN	03/05	3.625	n/a	99.6545	5.32	-0.08	-0.29	-0.12
■ EURO FFR								
Austria	01/04	5.500	AAA	102.0900	5.09	-0.08	-0.31	+0.03
Abbey Nat	02/04	0.000	AA	104.1000	5.20	-0.10	-0.27	+0.14
Cred Foncier	02/04	9.125	A	118.5100	5.50	-0.09	-0.28	+0.44
Abbey Nat FRN	09/06	4.510	n/a	102.4830	4.17	-0.08	-0.31	-1.06
■ EURO LIRA								
EIB	02/07	7.000	AAA	109.9400	5.58	-0.09	-0.50	-0.12
Abbey Nat	02/02	6.800	AA	105.0500	5.41	-0.08	-0.40	+0.10
Walt Disney	06/00	8.625	n/a	107.3300	5.40	-0.07	-0.47	+0.39
Abbey Nat FRN	03/07	8.000	AAr	104.2839	6.78	-0.08	-0.77	+1.08
■ EURO £								
EIB	12/07	7.625	AAA	107.8106	6.56	-0.10	-0.43	+0.26
Dresdner Bk	12/07	7.750	AA-	104.9625	7.04	-0.10	-0.36	+0.76
RBS	01/07	8.375	A+	107.5635	7.21	-0.10	-0.29	+0.93
Abbey Nat FRN	02/02	7.830	AA	100.0381	6.55	-0.10	-0.38	-0.03
■ EURO $								
EIB	04/07	7.250	AAA	107.4555	6.17	-0.11	-0.17	+0.37
ABN Amro	06/07	7.125	AA-	104.4520	6.49	-0.12	-0.17	+0.69
Quebec	01/07	7.000	A+	103.4596	6.49	-0.10	-0.14	+0.69
Citicorp FRN	02/04	5.938	A+	100.0489	5.92	-0.10	-0.09	+0.15
■ EURO C$								
Bayer L-Bk	06/04	9.500	AAA	118.3298	6.06	+0.06	+0.33	+0.20
Toronto	05/04	8.500	AA+	113.2666	5.95	+0.04	+0.32	+0.09
Bell Canada	07/98	10.625	A+	107.5551	5.46	+0.05	+0.55	+0.17
Deutsche B FRN	09/02	5.875	AAA	101.2541	5.57	+0.04	+0.16	-0.13
■ EURO YEN								
World Bank	03/02	5.250	AAA	117.2900	1.09	-0.01	-0.04	+0.04
Spain	08/02	5.750	AA	119.3000	1.10	-0.02	-0.10	+0.05
Cred Foncier	08/02	4.750	A	114.2621	1.54	-0.02	-0.07	+0.49
Italy FRN	07/98	0.594	AA	100.3593	0.83	-	+0.06	-0.17

London closing. Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Wed Dec 10	Day's change %	Tue Dec 9	Accrued interest	xd adj. ytd
1 Up to 5 years (18)	118.20	0.01	119.18	1.84	10.39
2 5-15 years (20)	157.32	0.12	157.22	1.77	11.88
3 Over 15 years (4)	180.28	0.32	189.83	1.16	14.12
4 Irredeemables (6)	232.80	0.43	231.79	1.50	14.48
5 All stocks (47)	150.47	0.12	150.28	1.76	11.88
Index-linked					
6 Up to 5 years (2)	212.05	0.13	211.75	1.18	6.09
7 Over 5 years (10)	217.00	0.40	216.13	1.57	5.76
8 All stocks (12)	215.40	0.38	214.60	1.52	5.76

UK Indices

	Low coupon yield Dec 10	Dec 9	Yr. ago	Medium coupon yield Dec 10	Dec 9	Yr. ago	High coupon yield Dec 10	Dec 9	Yr. ago
5 yrs	6.81	6.81	7.22	6.69	6.69	7.29	6.74	6.74	7.33
15 yrs	6.36	6.39	7.74	6.37	6.40	7.71	6.47	6.49	7.89
20 yrs	6.36	6.38	7.82	6.34	6.37	7.74	6.46	6.49	7.70
Irred.†	6.45	6.48	7.90						

Index-linked	Inflation 5% Dec 10	Dec 9	Yr. ago	Inflation 10% Dec 10	Dec 9	Yr. ago
Up to 5 yrs	3.03	3.07	3.24	2.23	2.27	2.59
Over 5 yrs	3.02	3.05	3.56	2.70	2.82	3.36

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date. PLEASE NOTE: Latest values were unavailable for this edition.

FT Fixed Interest Indices

	Dec 11	Dec 10	Dec 9	Dec 8	Dec 5	Yr ago	High*	Low*
Govt. Secs. (UK)	101.72	100.98	100.80	100.39	99.98	94.08	101.83	93.31
Fixed Interest	134.39	133.20	132.98	132.28	132.00	114.82	133.64	115.32

* for 1997. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption rate on projected inflation of (1) 5% and (2) 3%. (b) Figures in parentheses show RPI base for indexing. Prices calculated by HSBC Greenwell from Bank of England closing prices.

CURRENCIES AND MONEY

Won's weakness dominates market

MARKETS REPORT

By Richard Adams

The South Korean won took just four minutes to fall by its legal limit of 10 per cent against the US dollar yesterday, as a round of credit rating downgrades provoked increased gloom.

The won quickly plunged to 1719.8, from its limit-down of 1565.9 on Wednesday. The South Korean currency has now depreciated by just over 50 per cent against the dollar in the last 12 months.

The won's weakness spilled over to much of the rest of south-east Asia. The Hong Kong dollar, the Philippine peso, the Thai baht and the Malaysian ringgit all struggled.

Emerging market currencies outside Asia continued to be hit. The Mexican peso fell on concerns over Asian fall-out, with market interest rates rising. The new peso reached 8.195 against the dollar by the close of trading in London. It had previously closed at 8.135.

In Europe, the Swedish krona weakened slightly against the D-Mark and the dollar, after the announced a 25 basis point rise in the repo rate, to 4.35 per cent. The increase was already discounted and had a limited effect.

The Canadian dollar fell against the US dollar, despite what traders said was heavy intervention by the Bank of Canada. The Canadian currency closed at C$1.4273 in London, after having weakened to an 11-year low of C$1.4280 in Asia. It closed at C$1.4230 in Europe on Wednesday.

The dollar was weaker in Europe, losing a pfennig against the D-Mark to close at DM1.7733. The yen was quiet against the dollar, in advance of the unveiling of the Japanese government's latest financial package.

■ Emerging market analysts at Citibank said the "sense of panic" surrounding the won was aggravated by the decision of Moody's, the debt-rating agency, to downgrade South Korea's foreign currency long-term debt by two grades, to BAA2.

Moody's cited "new information which indicates the country's foreign currency financing needs may be greater than originally disclosed, and its international reserves are lower than previously believed."

Standard & Poor's agency also downgraded long-term forex debt, from A minus to triple B minus, and local currency debt from A plus to A minus.

The weakness of the won put further pressure on other regional currencies, with the Hong Kong dollar and the Philippine peso both suffering. The Singapore dollar touched a four and half year low, and there were further falls for the Thai baht, which reached new lows on both the onshore and offshore markets.

The baht closed at Bt43.6, following strong dollar demand, having previous closed at Bt42.35. In Malaysia, stock market weakness and Korea's problems drove the ringgit below M$3.75, although it later recovered.

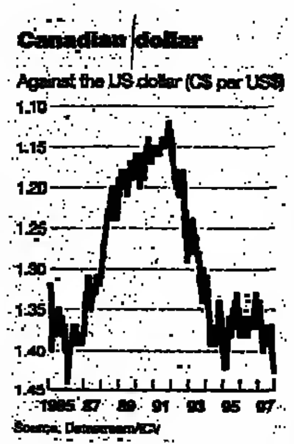
■ Apart from the downgrades, concern centred on talk that the International Monetary Fund's rescue package for South Korea may need to be revised.

Independent Economic Analysis (IDEA) yesterday noted: "Quite simply, the mathematics here do not work – $18-20bn requirements are estimated for the corporate sector to year end, against which South Korean usable reserves are just $10.5bn (even after IMF funds)." Even after an extra $4bn from the World Bank and the Asian Development Bank, the economy will still be $5-6bn short.

Unless the IMF, the US or Japan can put more money up sooner, IDEA suggested the won may hit 1850 today, 2000 by the end of the week, "and 2500 by year end! These are crazy valuations and enough to see a new round of speculation on the Hong Kong dollar."

■ Jean-Claude Trichet, the Bank of France governor and a candidate for the presidency of the European Central Bank, said yesterday he did not see a risk of turbulence on European foreign exchange markets between May next year and the launch of monetary union in January 1999.

European Union leaders will announce in May 1998 the rates at which they plan to fix currencies against each other for the launch of the single currency.



Source: Datastream/ICV

■ Pound in New York

Dec 11	Latest	Prev. close
£ spot	1.6560	1.6515
1 mth	1.6539	1.6494
3 mth	1.6419	1.6446
1 yr	1.6298	1.6262

■ OTHER CURRENCIES

Dec 11	£	$
Czech Rp	57.6526 - 57.7452	34.8870 - 34.9040
Hungary	331.841 - 332.104	200.690 - 200.740
Iran	4963.20 - 4980.50	3000.00 - 3000.00
Kuwait	0.5040 - 0.5044	0.3048 - 0.3049
Poland	5.8509 - 5.8624	3.5385 - 3.5435
Russia	9805.26 - 9813.90	5930.00 - 5932.00
U.A.E.	6.0731 - 6.0766	3.6729 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Dec 11		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.8355	-0.0841	274 - 436	20.7614	20.6255	20.572	6.7	20.4458	3.7	19.8511	3.3	102.6
Belgium	(BFr)	60.4833	-0.2754	255 - 411	60.9260	60.4225	60.2779	4.1	59.8954	3.9	58.4179	3.4	102.1
Denmark	(DKr)	11.1690	-0.0464	643 - 737	11.2478	11.1636	11.1347	9.7	11.0696	3.9	10.8277	6.1	104.5
Finland	(FM)	8.8483	-0.0267	419 - 552	8.9000	8.8400	8.817	4.2	9.76	4.0	9.5526	3.3	81.1
France	(FFr)	9.8204	-0.0358	160 - 247	9.8790	9.8151	9.7875	4.0	6.7240	3.9	9.4806	3.5	105.6
Germany	(DM)	2.9329	-0.0117	319 - 339	2.9515	2.9306	2.9236	3.8	2.9052	3.8	2.8327	3.4	103.4
Greece	(Dr)	461.188	-1.678	649 - 727	463.826	460.219	467.794	-17.2	477.384	-14.0	494.277	-7.2	65.6
Ireland	(I£)	1.1320	-0.0053	309 - 331	1.1373	1.1305	1.1386	1.3	1.1271	1.7	1.1041	2.5	97.0
Italy	(L)	2873.08	-8.79	147 - 469	2891.49	2870.12	2870	1.3	2862.4	1.5	2807.81	2.3	76.1
Luxembourg	(LFr)	60.4833	-0.2754	255 - 411	60.9260	60.3770	60.2779	4.1	59.8954	3.9	58.4179	3.4	102.1
Netherlands	(Fl)	3.3045	-0.0135	032 - 058	3.3254	3.3028	3.2936	4.0	3.2727	3.8	3.1907	3.4	101.5
Norway	(NKr)	11.9598	-0.0119	536 - 659	12.0176	11.9246	11.9201	4.0	11.847	3.8	11.5912	3.1	98.9
Portugal	(Es)	299.605	-1.084	482 - 728	301.509	299.446	298.987	2.5	297.657	2.8	291.072	2.8	91.7
Spain	(Pta)	247.820	-0.829	711 - 928	249.390	247.650	247.292	2.8	248.146	2.7	240.722	2.9	77.0
Sweden	(SKr)	12.8663	-0.0187	586 - 739	12.9205	12.8210	12.8346	3.0	12.7749	2.8	12.5777	2.2	85.4
Switzerland	(SFr)	2.3803	-0.0032	789 - 817	2.3883	2.3719	2.3682	6.1	2.3453	5.9	2.251	5.4	108.2
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	103.8
Ecu	-	1.4815	-0.0067	807 - 823	1.4919	1.4805	1.4777	3.1	1.4701	3.1	1.4391	2.9	-
SDR†	-	1.219927	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6537	+0.0025	532 - 541	1.6581	1.6482	-	-	-	-	-	-	-
Brazil	(R$)	1.8430	+0.0048	423 - 437	1.8463	1.8364	-	-	-	-	-	-	-
Canada	(C$)	2.3606	+0.0105	595 - 917	2.3638	2.3471	2.3538	3.5	2.3413	3.3	2.2981	2.6	82.6
Mexico	(New Peso)	13.5542	+0.1184	422 - 661	13.6157	13.4245	13.7325	-15.8	14.003	-13.2	15.2264	-12.3	-
USA	($)	1.6540	+0.0025	535 - 544	1.6584	1.6485	1.6519	1.6	1.6469	1.7	1.6276	1.6	108.4
Pacific/Middle East/Africa													
Australia	(A$)	2.4819	+0.0148	798 - 837	2.4865	2.4587	2.477	2.3	2.4662	2.5	2.4273	2.2	86.5
Hong Kong	(HK$)	12.8173	+0.0269	121 - 224	12.8488	12.7643	12.8585	-3.9	12.9646	-4.6	13.4676	-5.1	-
India	(Rs)	65.2897	+0.8812	306 - 488	65.4070	64.3190	-	-	-	-	-	-	-
Israel	(Shk)	5.8410	+0.007	312 - 508	5.8588	5.8297	-	-	-	-	-	-	-
Japan	(Y)	215.270	+2.185	153 - 386	215.440	212.810	213.955	7.3	211.455	7.1	200.68	6.8	118.2
Malaysia	(M$)	6.1982	+0.145	882 - 081	6.2269	6.0645	6.1852	2.5	6.1875	0.7	6.311	-1.8	-
New Zealand	(NZ$)	2.7739	+0.0275	720 - 758	2.7788	2.7384	2.7751	-0.5	2.777	-0.4	2.7832	-0.3	104.3
Philippines	(Peso)	60.0385	+1.829	087 - 683	60.5027	58.5953	60.8017	-15.3	62.1527	-14.1	68.1539	-13.5	-
Saudi Arabia	(SR)	6.2032	+0.009	013 - 050	6.2198	9.1832	6.1965	1.3	6.1817	1.4	6.1198	1.3	-
Singapore	(S$)	2.7026	+0.0292	002 - 049	2.7069	2.6730	2.7078	-2.3	2.71	-1.1	2.7003	0.1	-
South Africa	(R)	8.0986	+0.0293	939 - 033	9.1095	8.0591	8.1604	-8.2	9.2577	-7.9	8.6369	-6.6	-
South Korea	(Won)	2844.46	+258.4	369 - 524	2852.12	2581.39	-	-	-	-	-	-	-
Taiwan	(T$)	58.2863	+0.0519	467 - 259	58.9361	53.4989	53.2356	1.1	53.1135	1.3	52.6206	1.2	-
Thailand	(Bt)	72.1123	+2.169	273 - 973	72.6140	69.4020	72.4651	-5.9	72.9095	-4.4	75.0736	-4.1	-

† Rates for Dec 10. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 11		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.4765	-0.0694	750 - 780	12.5819	12.4740	12.4542	2.1	12.4145	2.0	12.258	1.9	102.3
Belgium	(BFr)	36.5690	-0.221	440 - 940	36.8890	36.5320	36.492	2.5	36.368	2.2	35.892	1.8	102.0
Denmark	(DKr)	6.7529	-0.0381	519 - 539	6.8100	6.7461	6.7409	2.1	6.7206	1.9	6.6525	1.5	103.7
Finland	(FM)	5.3498	-0.0241	470 - 525	5.3882	5.3445	5.3377	2.7	5.319	2.3	5.2547	1.8	80.6
France	(FFr)	5.9375	-0.0305	365 - 385	5.9849	5.9316	5.9253	2.5	5.9048	2.2	5.8249	1.9	105.0
Germany	(DM)	1.7733	-0.0097	731 - 734	1.7885	1.7707	1.77	2.2	1.7641	2.1	1.7404	1.9	102.8
Greece	(Dr)	278.840	-1.43	580 - 090	281.120	278.370	283.2	-16.6	289.85	-15.8	303.69	-8.8	65.3
Ireland	(I£)	1.4611	+0.0089	601 - 621	1.4626	1.4540	1.4607	0.3	1.4613	0.0	1.4741	-0.9	-
Italy	(L)	1737.10	-7.8	660 - 760	1750.50	1735.00	1737.48	-0.3	1738.02	-0.2	1725	0.7	75.8
Luxembourg	(LFr)	36.5690	-0.221	440 - 940	36.8890	36.5320	36.492	2.5	36.368	2.2	35.892	1.9	102.0
Netherlands	(Fl)	1.9980	-0.0111	977 - 982	2.0147	1.9958	1.9939	2.4	1.9872	2.2	1.9605	1.9	101.3
Norway	(NKr)	7.2311	-0.0179	293 - 328	7.2720	7.2145	7.2165	2.4	7.1934	2.1	7.1217	1.5	98.4
Portugal	(Es)	181.145	-0.925	120 - 170	182.500	191.000	181.006	0.9	180.735	0.9	178.835	1.3	92.1
Spain	(Pta)	149.835	-0.786	810 - 860	151.050	149.660	149.709	1.0	149.458	1.0	147.9	1.3	76.5
Sweden	(SKr)	7.7791	-0.0229	766 - 819	7.8254	7.7592	7.7699	1.4	7.7568	1.1	7.7277	0.7	85.1
Switzerland	(SFr)	1.4392	-0.004	387 - 396	1.4470	1.4345	1.4338	4.5	1.4241	4.2	1.3831	3.9	107.9
UK	(£)	1.6540	+0.0025	535 - 544	1.6584	1.6485	1.6519	1.6	1.6469	1.7	1.6276	1.6	103.9
Ecu	-	1.1164	+0.0066	181 - 167	1.1174	1.1060	1.1179	-1.9	1.1202	-1.4	1.131	-1.3	-
SDR†	-	0.74115	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-	998 - 998	0.9999	0.9997	-	-	-	-	-	-	-
Brazil	(R$)	1.1143	+0.0012	142 - 144	1.1151	1.1140	-	-	-	-	-	-	-
Canada	(C$)	1.4273	+0.0043	270 - 275	1.4280	1.4228	1.425	1.8	1.4217	1.6	1.4121	1.1	82.9
Mexico	(New Peso)	6.1950	+0.0595	900 - 000	8.2050	6.1850	8.3135	-17.4	8.5025	-15.0	9.355	-14.2	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	109.1
Pacific/Middle East/Africa													
Australia	(A$)	1.5005	+0.0067	997 - 013	1.5015	1.4993	1.4997	0.6	1.4971	0.9	1.4864	0.9	87.2
Hong Kong	(HK$)	7.7485	+0.0048	485 - 505	7.7510	7.7430	7.7845	-5.4	7.872	-6.3	8.2745	-6.8	-
India	(Rs)	39.4750	+0.475	500 - 000	39.5100	39.0000	-	-	-	-	-	-	-
Israel	(Shk)	3.5319	-0.001	268 - 365	3.5424	3.5258	-	-	-	-	-	-	-
Japan	(Y)	130.155	+1.13	120 - 190	130.230	128.630	129.53	5.8	128.39	5.4	123.285	5.8	120.7
Malaysia	(M$)	3.7475	+0.0822	425 - 525	3.7600	3.6750	3.7445	1.0	3.757	-1.0	3.8775	-3.5	-
New Zealand	(NZ$)	1.6771	+0.0142	764 - 779	1.6811	1.6758	1.6802	-2.2	1.6856	-2.0	1.7044	-1.6	-
Philippines	(Peso)	36.3000	+1.05	500 - 500	36.5700	36.0300	36.809	-16.8	37.7385	-15.9	41.873	-15.4	-
Saudi Arabia	(SR)	3.7505	-0.0002	504 - 506	3.7508	3.7502	3.7513	-0.3	3.7534	-0.3	3.76	-0.3	-
Singapore	(S$)	1.6340	+0.0152	330 - 350	1.6360	1.6225	1.6392	-3.9	1.6455	-2.8	1.659	-1.5	-
South Africa	(R)	4.8965	+0.0105	950 - 980	4.8995	4.8825	4.9402	-10.7	5.014	-9.6	5.3065	-8.4	-
South Korea	(Won)	1719.80	+153.9	980 - 980	1720.10	1719.60	-	-	-	-	-	-	-
Taiwan	(T$)	32.2175	-0.0165	000 - 350	32.6500	31.7500	32.2285	-0.4	32.25	-0.4	32.33	-0.3	-
Thailand	(Bt)	43.6000	+1.245	000 - 000	43.8000	42.2000	43.87	-7.4	44.27	-6.1	46.125	-5.8	-

† SDR rate per $ for Dec 10. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 10: Base average 1990=100.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 11		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.47	16.24	4.849	1.872	4750	5.464	19.77	495.4	409.7	21.27	3.936	1.653	3.908	2.735	355.9	2.449
Denmark	(DKr)	54.15	10	8.793	2.626	1.014	2572	2.959	10.71	268.2	221.8	11.52	2.131	0.895	2.114	1.481	192.7	1.326
France	(FFr)	91.59	11.37	10	2.987	1.153	2929	3.365	12.19	305.1	252.4	13.10	2.424	1.019	2.404	1.684	219.2	1.509
Germany	(DM)	20.62	3.806	3.348	1	0.386	979.9	1.127	4.078	102.2	84.50	4.387	0.812	0.341	0.805	0.564	73.40	0.505
Ireland	(I£)	53.43	9.867	8.675	2.591	1	2538	2.919	10.57	264.7	218.9	11.37	2.103	0.883	2.085	1.461	190.2	1.309
Italy	(L)	2.105	0.389	0.342	0.102	0.039	100	0.115	0.419	10.43	8.626	0.448	0.083	0.035	0.082	0.058	7.493	0.052
Netherlands	(Fl)	18.30	3.380	2.972	0.888	0.343	869.4	1	3.619	90.66	74.99	3.893	0.720	0.303	0.714	0.501	65.14	0.448
Norway	(NKr)	50.57	9.339	8.211	2.452	0.946	2402	2.763	10	250.5	207.2	10.76	1.990	0.836	1.974	1.383	180.0	1.239
Portugal	(Es)	20.19	3.728	3.278	0.976	0.378	959.0	1.103	9.992	100	82.72	4.294	0.795	0.334	0.788	0.552	71.85	0.494
Spain	(Pta)	24.41	4.507	3.963	1.184	0.457	1159	1.333	4.828	120.8	100	5.192	0.961	0.404	0.953	0.667	86.87	0.598
Sweden	(SKr)	47.01	8.681	7.633	2.280	0.880	2233	2.568	9.296	232.9	192.6	10	1.850	0.777	1.835	1.286	167.3	1.151
Switzerland	(SFr)	25.41	4.692	4.126	1.232	0.476	1207	1.388	5.024	125.9	104.1	5.405	1	0.420	0.992	0.695	90.44	0.622
UK	(£)	60.49	11.17	9.821	2.933	1.132	2873	3.305	11.96	299.6	247.8	12.87	2.380	1	2.361	1.654	215.3	1.482
Canada	(C$)	25.62	4.731	4.160	1.242	0.480	1217	1.400	5.066	126.9	105.0	5.450	1.008	0.424	1	0.701	91.15	0.628
USA	($)	36.57	6.753	5.938	1.773	0.684	1737	1.998	7.231	181.1	149.8	7.779	1.439	0.605	1.427	1	130.2	0.896
Japan	(Y)	28.10	5.188	4.562	1.362	0.526	1335	1.535	5.556	139.2	115.1	5.977	1.106	0.465	1.097	0.768	100	0.688
Ecu	-	40.83	7.539	6.629	1.980	0.764	1939	2.231	8.073	202.2	167.3	8.685	1.607	0.675	1.593	1.119	145.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10: Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.5607	0.5643	+0.0044	0.5644	0.5599	7,815	42,432
Mar	0.5629	0.5671	+0.0043	0.5674	0.5622	16,950	58,963
Jun	-	0.5695	+0.0039	0.5695	-	3	4,246

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7735	0.7720	-0.0019	0.7775	0.7708	21,889	60,985
Mar	0.7848	0.7825	-0.0017	0.7883	0.7819	34,320	86,926
Jun	-	0.7951	+0.0011	-	0.7950	46	1,654

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6917	0.6963	+0.0043	0.6970	0.6917	3,787	23,436
Mar	0.6985	0.7037	+0.0046	0.7049	0.6980	15,505	37,151
Jun	0.7090	0.7090	+0.0030	0.7112	0.7090	70	1,447

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.6496	1.6540	+0.0042	1.6560	1.6496	4,803	32,298
Mar	1.6422	1.6470	+0.0040	1.6508	1.6408	9,036	20,925
Jun	-	1.6400	+0.0036	1.6400	-	1	1,256

WORLD INTEREST RATES

MONEY RATES

December 11	Over night	One month	Three mths	Six mths	One year	Lomb. inter	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	-	3.30
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.75	6.25	6.17
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.75	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	6	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.10	5.36	5.49	5.64	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

UK INTEREST RATES

LONDON MONEY RATES

BASE LENDING RATES

COMMODITIES AND AGRICULTURE

Gold and silver move in opposite directions

MARKETS REPORT

By Gary Mead and Robert Corzine

Gold and silver moved in opposite directions, with the former still under hearish pressure and the latter continuing to attract the attention of a syndicate formed by a US investmeot fund and two hullion houses, seeking to push the price as high as $9 an ounce.

The London afternoon "fix" for gold was $284.80 an ounce, against the morning's $286.15, hut still above Tuesday's 18-year low of $283.25. Silver touched had $6.14 an ounce overnigbt in New York but retreated fractionally to $6.05.

On the London International Financial Futures Exchange and New York's Coffee, Sugar and Cocoa Exchange there wss renewed interest in cocoa futures, fuelled by buying from investment funds. On Liffe there was heavy turnover (20,592 lots) and the March contract closed £42 higher, at £1,124 a tonne, the highest since October 21.

Oo the CSCE the mood was even more effervescent, as the March contract easlly breached the $1,700 level; by midday it was up $55 at $1.725 a tonne, a 10 per cent increase since late last week.

There was lesa bullish sentiment surrounding coffee, where the rally on Liffe on Wednesday fizzled ont. The March contract was down $28 by the close, to $1,802 a tonne.

On the CSCE the picture was slightly better, the March contract 1.65 cents up at midday to 184.25 cents a pound, slightly bolstered by news from Colombia on Wednesday that the 1997-98 crop might be 1m 60 kg bags less than the 12.5m bags expected earlier this year.

The weakness that has afflicted crude oil markets in recent days continued yesterday, although prices made a modest recovery in late London trading from their steep falls on Wednesday. Brent Blend for January delivery, the international hellwether, was quoted at $17.48 a barrel in late trading on London's International Petroleum Exchange, 6 cents up on Wednesday's close. The January contract on the New York Mercantlle Exchange was up 5 cents at midday to $18.19 a barrel.

The recent weakness in oil prices has caused some traders and analysts to speculate whether crude prices have entered a new, lower range. For much of the year Brent has traded in a $18 to $22 range. But traders say that unless prices rally in pre-Christmas trading there is a danger that the market perception could slip to a range as low as $13 to $18.

Production of oilseeds to rise

By Gary Mead

Global prodnction of the seven main oilseed crops is set to expand by 7 per cent in 1997-98, accordiog to latest estimatas by tbe UN's Food and Agriculture Organisation.

The FAO says production of soyabeans, copra, cottonseed, rapeseed, groundnuts, sunflower seed and palm kernels is expected to rise to 281m tonnes, from 261m tonnes in 1996-97.

More than two-thirds of the increased output will be due to bigger soyabean production in Argentina, Brazil and the US, the organisation says in a report to its Committee on Commodity Problems, at a meeting tbat closes today.

The overall growth masks a 7 per cent decline in world production of groundnuts, primarily caused by a severe drougbt in Chioa and reduced planting in India.

A fall in world fishmeal prodnction of about 500,000 tonnes – mainly as a result of the current El Niño abnormal weather system's impact oo eastern Pacific fish stocks – will be compensated for by an 8 per cent rise in world production of cakes and meals, to nearly 70m tonnes in 1997–98, the report forecasts.

As a result of these higger harvests, world output of edible/soap oils and fats in 1997-98 is expected to rise to 102m tonnes, up 5 per cent from last season.

Consumption is also expected to rise, by about 2.7 per cent, to perhaps 100m tonoes in 1997-98.

The study notes that "unfavourable climatic conditions" have sbarply widened China's domestic supply/demand gap for oilseed products; from being a net exporter in 1993-94 China has now become one of the biggest importers, buying as mucb as 4.6m tonnes in 1997-98.

"The timing and magnitude of Chinese purcbases of oilseed-based products will be a major factor influencing international price developments of these products this season," says the report.

The study also considers the growth of biotechnological development in the oilseeds sector; lt estimates that in 1997-98, some 11-14 per cent of US plantings (3m-4m hectares) will be of genetically modified soyabeans, and in Argentina approximately 1.5m hectares (about 20 per cent of tbe total).

The FAO says that in 1998-99 these levels are expected to "double in the US and Argentina" while in Canada 25 per cent of total plantings will be of genetically modified soyabean.

Glowing future for Colombian coal

Located in Colombia's arid northern hills, the El Cerrejón Norte project – Latin America's largest open-faced coal mine – cburns out more than 1m tonnes of coal a month.

Uotil now, it has been the most visible sign of large-scala coal prodnction in Colombia, the region's largest producer – but not for much longer. Witb a number of oew areas recently opened up to foreign companies, national production is set to increase dramatically from 30m tonnes last year to betweeo 53m and 75m tonnes by 2005.

US-based Drummond, which will operate two of the three new areas, is optimistic. August Jimeoez, the company's presldent in Colombia, said that in El Descanso, oear the Caribbean coast, preliminary studies had indicated proven reserves of 1bo tonnes.

Coal is now Colombia's third most important export – after oil and coffee – with earnings last year reaching $871m. Most of the country's reserves are only 200 miles from their export terminals, compared with 1,200 miles in the case of Sonth Africa and 500 miles in Australia.

Also, Colombian mining companies have to remove only six tonnes of material to produce one tonne of coal, while the world average is between 12 tonnes and 15 tonnes. Colomblan coal is also clean-hurning, with a less than 1 per cent sulphur content.

Timothy Ross

Logistics: At La Loma coal mine Drummond has had to resort to expensive road transport

However, if the country bopes to develop its coal resources fully, it will have to start investing heavily to improve inadequate railway and port infrastructure.

"The lack of proper infrastructure is the main obstacle to realising Colombia's potential as a coal exporter," says Jairo Londoño, former president of Carbocol, the state coal company.

The deficiency at present is all too apparent. At Drummond's La Loma coal mine, where production this year will reach 5.5m tonnes, the company has to use expensive road transport for lack of a railway link to its port.

In the case of El Cerrejón Norte, under-used railway and port facilities remain exclusive to the operation, in splte of contractual clauses which oblige the mine operators, Intercor – a subsidiary of Exxon – to make the infrastructure availahle to port-starved mining companies in the area.

Yet the situation is gradually improving. A concession to revamp the nation's neglected railway network – including a branch connecting Drummond'a La Loma mine to its export terminal – is to be awarded before the end of the year.

Thera are also plans to build a new port, which would solve many of the prohlems experlenced by companies at present.

"We have paid for 90 per cent of the design cost of the new port," said Jorge Hernán Ochoa, head of planning at Ecocarbón, the state body responsihle for developing the coal sector. "The new facility should be ready to coincide with the production phase of the new area."

And the government is looking to use next year's privatisatioo of Carbocol – a 50 per cent partner in El Cerrejón Norte – as an opportunity to negotiate opening up the project's infrastructure to other companies.

Some doubts about the sector still linger, however. This year, left-wing guerrillas have oo three occasions blown up railway infrastructure linking El Cerrejón Norte to its export terminal at Puerto Bolívar.

Oswaldo de Andreis, head of communications at Intercor, recently admitted his company was concerned over the lack of security and said that if the attacks persisted, it would have to look closely at the feasibility of the operations.

The attacks were not typical, though. While foreign oil companies operating in Colombia have bad to endure repeated attacks by guerrillas – Occidental's Caño Limón-Coveñas pipeline bas been subject to almost 500 separate attacks ln ita 11-year bistory – mining companies have not suffered the same disruptions.

And other foreign mining companies do not seem too concerned. With prlvate investment in coal projects estimated at some $2bn over the next few years, Colombia is virtually guaranteed a significant – and sustained – rise in coal production.

Adam Thomson

IPE plans emission permit trading

By Gary Mead

The International Petroleum Exchange in London yesterday said it wants to launch a global market in the trading of emission permits and would present proposals on the subject to the UK government before the end of January.

"We've been looking at this for the past six months, and on the basis of what already is the case in the US, we are quite confident that it is something that works," said Lynton Jones, cbief executive of the exchange.

The move by the exchange has been made in response to this week's Kyoto environmental summit, where market-based proposals to combat carbon dioxide emissions came under consideration.

Mr Jones pointed to tbe example of tbe US, where power generators are legally permitted to trade their rigbts to emit sulphur dioxide.

"In the US over the past two years this market solution has belped reduce sulpbur emissions by 7m tonnes, or between 25 and 33 per cent of total sulphur emissions," said Mr Jones.

Tbe IPE argues that its experience in rnnning traded energy and risk management contracts, together witb tbe strong links between fossil fuel consumption and carbon dioxids emissions, ideally place it to estabiish and run a market in carbon dioxide emission permits, if they come into being.

"But if it is restricted to permits being traded between governments alone, it is not going to work. It has to be a market of the power stations themselves, the actual polluters rather than tbe governments," added Mr Jones.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1543-44	1565.5-66
Previous	1558-59	1579-80
High/low		1581/1560
AM Official	1542.5-43.0	1564-64.5
Kerb close		1562-63
Open int.	262,247	
Total daily turnover	105,730	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1410-20	1430-40
Previous	1410-20	1430-40
High/low		1435/1423
AM Official	1400-10	1425-30
Kerb close		1427-30
Open int.	6,062	
Total daily turnover	1,270	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	510.5-1.5	526-7
Previous	517.5-16.5	534-35
High/low		541/525
AM Official	514-15	530-30.5
Kerb close		535-6
Open int.	32,905	
Total daily turnover	12,815	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6135-45	6230-35
Previous	6065-75	6160-70
High/low		6290/6210
AM Official	6135-45	6230-40
Kerb close		6240-45
Open int.	59,994	
Total daily turnover	23,263	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5475-80	5385-90
Previous	5480-90	5380-90
High/low		5430/5375
AM Official	5495-500	5390-95
Kerb close		5390-400
Open int.	15,547	
Total daily turnover	5,472	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1128.5-29.5	1149-50
Previous	1126-26	1147-47.5
High/low		1175/1147
AM Official	1140-40.5	1160-60.5
Kerb close		1153-54
Open int.	82,643	
Total daily turnover	23,991	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1782-83	1810-11
Previous	1787-88	1817-18
High/low		1835/1805
AM Official	1792-93	1821-22
Kerb close		1810-11
Open int.	160,361	
Total daily turnover	47,868	

MEAT AND LIVESTOCK

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	57.225	+1.125	59.100	55.250	935	6,267
Mar	58.300	+0.900	58.400	54.850	133	1,015
May	57.400	+1.325	58.550	55.700	89	1,023
Jul	56.800	+1.000	58.000	55.000	34	520
Aug	52.300	+0.025	54.250	52.300	1	74
Total					1,192	8,924

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jan	Apr	Jan	Apr
1500	65	97	8	29
1525	47	81	18	38
1550	32	67	29	49
■ COPPER (Grade A) LME	Jan	Apr	Jan	Apr
1800	40	86	41	65
1850	21	63	71	92
1800	10	45	110	122
■ COFFEE LIFFE	Jan	Mar	Jan	Mar
1750	77	134	10	79
1800	43	108	28	103
1850	22	87	55	132
■ COCOA LIFFE	Mar	May	Mar	May
1075	70	98	24	34
1100	56	83	34	44
1125	42	69	46	55
■ BRENT CRUDE IPE	Jan	Feb	Jan	Feb
1700	-	-	1	42
1750	3	52	30	51
1800	-	29	39	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$16.51-6.65	-0.10
Brent Blend (dated)	$16.93-6.96	-0.075
Brent Blend (Jan)	$17.48-7.51	-0.075
W.T.I.	$18.18-8.20w	

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

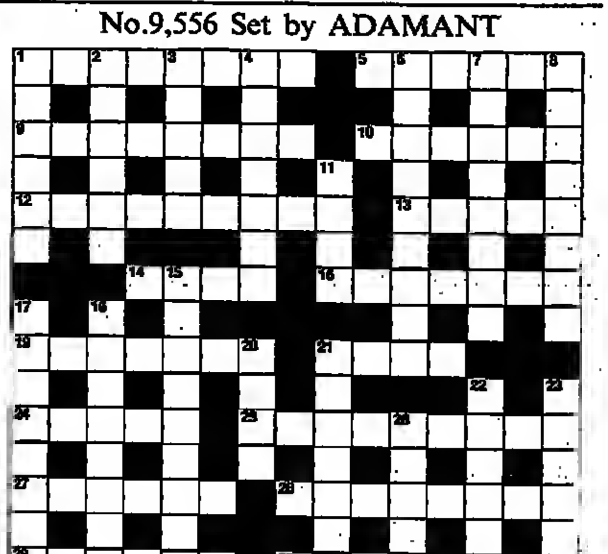
Premium Gasoline	$163-165	-4
Gas Oil	$160-162	-1
Heavy Fuel Oil	$83-85	-4
Naphtha	$173-174	-1
Jet fuel	$182-183	-0.5
Diesel	$170-171	-2

■ NATURAL GAS (Pence/therm)

JOTTER PAD

CROSSWORD

No.9,556 Set by ADAMANT



ACROSS

1 Artist adds a few lines on the subject of finance (8)
5 Strategic move to put first session of play at college after tea, say (6)
9 About to drink to the newsman (8)
10 More than either part of the hydrocarbon (6)
12 Swedes lie around in Switzerland – what a bloomer! (9)
13 Turns out to be you and me in the Bible Society (5)
14 Call round (4)
16 Worry about Saigon getting Ecstasy (7)
19 Managing a sporting discipline (7)
21 Busy, involved in acquisitions (4)
24 Here in France no good? On the contrary, topping! (5)
25 Awkward relations with the Chinese (9)
27 One cold walk back to snowy peak (6)
28 Providing decoration in grand work about love (8)
29 For example, the engineers on the ship are way out (6)
30 Possible danger in gambling joints (8)

DOWN

1 The bringing together of some former German provinces (6)
2 Novel setting for quiet man who is a relative (6)
3 Worth upsetting the cast (5)
4 Getting wound up for the dancing (7)
6 A new theology omits eastern writings (9)
7 Keep still (8)
8 They need the backing of the hoard to maka their moves (8)
11 Even characters in Pat's visa are for the continent (4)
15 Sailing away on the steamship "Gelatin" (9)
17 Left out of article about one fellow's trickery (8)
18 Contrive directions for one in green revolution (8)
20 Can a log drift? (4)
21 Bricklayer sent the account to Cockney girl, we bear (7)
22 Airmen on manoeuvres with sailor (6)
23 Men who are wise follow universal customs (6)
26 Annoys those with information (5)

Solution 9,555

WARSAW SUBTOPIA
LISBON BEQUEATH
DUBLINER UPTURN
CODE TALLINN
VILNIUS RIGA
EDIBLE ZENITHAL
LONDONER ZAGREB
NEAPTIDE MADRID

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

AIB Fund Management Ltd

BT Fund Managers (Ireland) Ltd (u)

Lazard Investment Funds Ltd - Contd.

Morgan Grenfell Investment Funds Ltd (u)

Scottish Value Management (Ireland) Ltd (u)

BT&T Asset Management (Ireland) Ltd

BZW Secured Equity Fund II Plc

Bank of Ireland Unit Managers Ltd

Daiwa Europe Fund Mgrs Ireland Ltd

Dragon Korea Fund Plc

Dresdner Kleinwort Benson Int Mgt Srv

INVESTORS Fund Services (Ireland) Ltd

Kim Europe Worldwide Fund

Kim Far East Fund Plc

Kim Korea Fund Plc

Korea Active

Korea Balanced Return Fund

Korea Bond Fund Plc

Korea CB Fund Plc

Singer & Friedlander Inv Funds Ltd (u)

Eagle Star European Life Assurance Co Ltd

Edgehill Select Group

Egerton Capital European Fund Plc

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

Allied Dunbar Intl Fund Mgrs (1000)F

Ashburton Global Funds Ltd (1200)

Bank of Ireland Asset Mngmt (IOM) Ltd

AIB Govett Management (Jersey) Limited

Bank of Scotland Fund Managers (Jersey) Ltd

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

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Bank Von Ernst & Cie AG

Banque Indosuez

Barclays Diversified Portfolio (z)

Barclays Inv Funds (Luxembourg)

CMI Asset Management (Luxembourg) SA

Frontrunner I (u)

GT Global

HSBC Investment Funds Luxembourg SA (u)

Morgan Stanley Sicav - Contd.

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

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Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

ENGINEERING, VEHICLES - Cont.

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		£23¼	—	£27½	£21⅝	-	2.9	Φ
Barlow	♣	851	-3	961	557	-	3.0	Φ
Gold Flds Prop R		120½	-1	197	119	-	6.7	10.3
SA Brews	†	£13½xd	-½	£23¾	£13½	-	2.7	-
Standard Bank		£24½	-½	£30	£21	-	2.1	-
Tiger Oats		820xd	-25	1100	790	-	2.3	Φ
Tongaat-Hulett		744½xd	-1	780	710½	-	2.4	Φ

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRAINS		£500xd	—	£50300	£472	-	-	-

PROPERTY - Cont.

SUPPORT SERVICES - Cont.

RETAILERS, FOOD

TELECOMMUNICATIONS

RETAILERS, GENERAL

TEXTILES & APPAREL

TOBACCO

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves marked † in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- Ψ Rule 2 1(a)(iv) Overseas incorporated companies listed as on approved exchange.
- ♣ Free annual/interim report available, see details below
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. j Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. d Dividend yield excludes a special payment. F Yield based on prospectus or other official estimates for 1996-97. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1997. K Yield based on prospectus or other official estimates for 1995. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1997-98. R Dividend is paid in whole or part as a FID (Foreign Income Dividend). S Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion.

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The share prices printed on these pages are also available on the Internet at http://www.FT.com.

LONDON STOCK EXCHANGE

UK shares slide as Asia weakness intensifies

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

A return of the widespread weakness across far eastern stock markets, in the wake of another limit-down slide in the South Korean currency, induced heavy falls across global markets, with London no exception.

The list of hig losses across the far eastern indices made grim reading for investors, with Malaysia taking the biggest hit, sliding 7.4 per cent, followed hy Tokyo, down 5.6 per cent, Hong Kong, down 5.5 per cent, and Tokyo, down 2.8 per cent.

Those losses, coming on top of a badly dented Wall Street performance, where the Dow Jones Industrial Average dipped almost 1 per cent, pulled the rug from undernaath a London equity already struggling after two sessions of weakness.

Burdened hy the predictahly large falls in the banks sensitive to the Asian region, the FTSE 100 index finished an uncomfortable trading session e further 94.8 down at 5,035.9, having tumbled back below 5,000 only minutes after the opening.

It was then that the index and the rest of the market was seen as being at its most vulnerable, with s lack of commercial bids and offers being offered up to the electronic order book producing an initial steep fall in the Footsie. The index dropped 131.1 to 4,999.6 as those early prices were fed into the system.

The index regained abont half of those early losses hy mid-morning but sagged again over the lunchtima period as the market correctly anticipated another weak opening by Wall Street. The sell-off in the US subsequently gatbered momentum, the Dow posting a 150-point fall not long after London closed.

After-hours trading in the Footsie future saw the derivative drop below 5,000.

The latest economic news from the US, retail sales for November and the weekly jobless claims figures, saw US Treasury bonds move up a point, helping gilts and triggering a brief early afternoon rally in UK stocks.

Other FTSE indices also suffered, the FTSE 250 finishing the day 15.5 off at 4,753.8 and the SmallCap 6.3 down at 2,298.8.

Senior dealers said the market had become increasingly unsettled by events in the Asian market. "My gut feeling is that this could be tbe perfect buying opportunity, hut the Far East doesn't seem to have sorted itself out yet and until it does we'll be vulnerable," said the head trader at one European house.

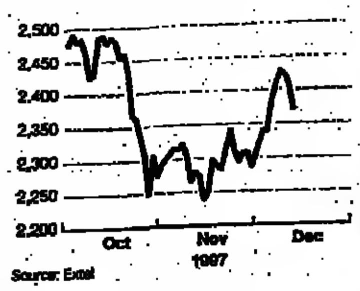
Another insisted there had been no significant selling by the institutions but he warned that any hig fall on Wall Street "will inevitably impact on London".

There were glimmers of light for UK stocks with two more bid stories emerging – Triplex Lloyd attracted a bid approach as did Plasmec.

Another story doing the rounds was that South West Water was lining up an offer for Shanks & McEwan, the waste disposal group, whose shares have moved up strongly in recent sessions.

Turnover at 6pm was a disappointing 690.7m shares, with non-FTSE 100 stocks accounting for 47 per cent of the total.

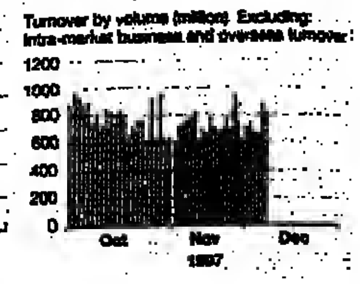
FTSE All-Share Index



Source: Extel

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	5035.9	-94.8	FT 30	3228.90	-38.5
FTSE 250	4753.8	-15.5	FTSE Non-Fins p/e	19.80	20.09
FTSE 350	2427.6	-38.4	FTSE100 Fut Dec	5034.0	-84.0
FTSE All-Share	2371.64	-35.52	10 yr Gilt yield	6.36	6.48
FTSE All-Share yield	3.29	3.24	Long gilt/equity yld ratio	1.93	1.99

Best performing sectors

1. Health Care ....+0.8
2. Textiles & Apparel ....-0.2
3. Water ....-0.2
4. Insurance ....-0.3
5. Paper, Packaging ....-0.3

Worst performing sectors

1. Extractive Industries ....-3.3
2. Banks: Retail ....-2.7
3. Mineral Extraction ....-2.5
4. Oil: Integrated ....-2.5
5. Oil: Exploration ....-2.1

Far East worries hit oils

By Peter John, Martin Brice and Joel Kibazo

Oil stocks reflected the shivers of uncertainty coming from the Far East as analysts calculated that the economic downturn in the region could pnt future growth on hold.

One specialist pointed out yesterday that the Far East, excluding Japan and Australia, accounts for half of total world demand growth.

And the latest fall in South Korea, combined with revived nervousness over the return of Iraq as a producer and increased output from Opec, saw one-month Brent tumhle 50 cents to $17.45 a barrel. At that level it is close to the bottom of the range of UK forecasts for next year.

BP, which generates almost two-thirds of its revenue from upstream activity, fell 24 to 315p on chunky turnover of 11m shares.

Sbell, which is less exposed to shifting oil prices and which was supported ahead of today's keenly awaited presentation on its progress, fell only 9 to 431p with turnover of 18m shares suggesting heavy two-way business. Among exploration and production stocks, Enterprise sbed 25½ to 582½p on a combination of exploration hitches in Italy and oil price worries. The company has halted exploratory drilling at its Monte Foi field in southern Italy.

Cairn rose 12½ to 497½ as Merrill Lynch reiterated its "buy" stance on the stock following a positive drilling rsport on Cairn's gas field in Bangladesh.

BG, traditionally one of the most liquid stocks in the UK and thus one of tbe stocks most heavily exposed to big shifts in the market, held relatively firm with support from Credit Lyonnais Laing.

The broker believes there is "significant profits growth to come from exploration and production and International Downstream".

It says: "Despite a strong performance since the demerger, tbere is still upside of more than 10 per cent from current levels."

Laing puts a sum of the parts valuation of 315p on the stocks but says it could be worth as much as 345p if the company's operations in Kazakhstan are factored in. The shares ended the day a net 6 lower at 282p.

Hong Kong-traded stocks led the market down following a further tumble in the Asian markets.

HSBC tumbles

HSBC, which represents 4 per cent of the FTSE All-Share index, fell 84 to £15.36 in the 75p stock and Standard Chartered 27 to 698p. The two banks accounted for more than 15 points off the Footsie. Cable & Wireless, also exposed to the region, fell 9¼ to 529p.

Abbey National stood out as investors responded to enthusiastic comment from SBC Warburg Dillon Read. Dealers said the broker entertained Ahbey executives on Wednesday and came away with a positive story. The shares rose 2 to £10.35.

However, National Westminster, which has been driven higher by persistent takeover speculation, fell 28 to 971p. There are some concerns about a heavy expoaure to syndicated loan losses.

General Accident climbed 17¼ to £10.54 as consolidation talk continued among insurers.

The after-shock of the announcement by the rail regulator of a wide-ranging review continued to take its toll on Railtrack shares, which lost a further 53 to 943p in brisk volume of 4.9m.

Tbe movement leavea investors nursing a fall of 137p in two days while almost 2 per cent of the company's sbares have been traded in tha same period.

Analysts suggested the fall was an over-reaction, while traders suggested the bail-out bad been led hy US investors who may not have been completely familiar with the UK regulatory environment.

One specialist said: "If tha Labour government wants continued investment in the railways, there has to be sufficient reason for Railtrack to make that investment."

Avis Europe outperformed the market after Britisb Airways said it had chosen the company as its worldwide preferred car rental partner. Avis gained 2 to 173p.

A bright spot was provided by Forth Ports, which rose 12½ to 612½p as it announced a deal to develop and operate a dedicated Finnish terminal at the Port of Tilbury. The atock was also said to buoyed by hopes that the Royal Yacht Britannia would be berthed at Edinburgh docks, which the company runs.

Bid speculation in Racal Elactronics helped the shares climb to the top of the FTSE 250 best performers list. Shares in the group, whicb put its loss-making data communications business np for sala and announced the flotation of its telecommunications subsidiary, ended the day up 14 or 6.35 per cent to 234½p.

News of the re-organisation came as the company revealed a well flagged fall in first-half profits to £9.2m against £21.2m last time.

Several analysts and dealers now believe that Racal is ripe for takeover. The list includes Brian Newman at Henderson Crosthwaite who said: "Eliminating the loss-making data products activity removes the poison pill and makes it an attractive hid candidate."

The broker has placed a 320p near term share price target on the stock.

Triplex Lloyd rose 34 to 263½p after it said it was in talks that might lead to an offer at 280p a share, having previously denied it was talking to Doncasters, the Midlands engineer which has a US listing.

LucasVarity gained 1½ to 192½p after it announced the surprise sale of its diesel engines business Varity-Perkins for $1.325bn to Caterpillar of the US. Volume in the stock was 19m, the third busiest in the market.

Newcomer Autologic, a new car distribution husiness, floated at 250p and rose to 254½p while Synter Group, came in at 230p and rose to 231½p.

SHL Group, floated in October and the only listed provider of psycbometric testing, gained 8 to 265½p after results slightly ahead of prospectus forecasts.

In retailers, ahares in Harvey Nichols Group fell 23½ to 193p as the market registered its disappointment with current trading. Analysts were disappointed with the news that sales in the first nine weeks of the second half were up just three per cent.

Several analysts indicated they would be downgrading full-year profit expectations.

Scotia fell 37½ to 367½p on reports of legal action in the US. The company confirmed a press report which said it had received a penalty notice from US Customs officials.

FT 30 INDEX

	Dec 11	Dec 10	Dec 9	Dec 8	Dec 5	Yr ago	*High	*Low
FT 30	3228.9	3267.4	3291.9	3291.5	3279.8	2755.7	3430.3	2668.8
Ord. div. yield	3.51	3.46	3.43	3.42	3.44	4.14	4.22	3.29
P/E ratio net	20.95	21.26	21.46	21.47	21.35	16.66	22.39	15.8
P/E ratio nil	20.66	20.97	21.17	21.18	21.05	18.5	22.02	15.71

FT 30 since compilation: high 3430.3 16/10/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3267.0	3230.4	3234.5	3242.2	3238.5	3241.3	3227.2	3228.9	3224.5	3267.0	3205.6

	Dec 11	Dec 10	Dec 9	Dec 8	Dec 5	Yr ago
SEAQ bargains	46,511	46,473	52,107	59,302	62,682	30,990
Equity turnover (£m)†	-	NA	NA	2793	3134.8	945.3
Equity bargains†	-	NA	NA	52,890	54,649	15,983
Shares traded (ml)†	-	NA	NA	789.9	863.7	332.3

†Excluding intra-market and overseas turnover but including Crest turnover.

 *For 1997.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	357	Total Highs	98	Total contracts	30,747
Total Falls	1,191	Total Lows	115	Calls	7,359
Same	1,505			Puts	23,388

Dec 11 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int
Dec	5075.0	5040.0	-100.0	5090.0	4990.0	11426	46985
Mar	5125.0	5090.0	-100.0	5134.0	5045.5	3033	19855

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int
Dec	4763.0	4763.0	-18.0	4765.0	4763.0	755	5408
Mar	4840.0	4839.0	-20.0	4840.0	4840.0	250	3059

FTSE 100 INDEX OPTION (LIFFE) (*5025) £10 per full index point

	4850 C	4850 P	4900 C	4900 P	4950 C	4950 P	5050 C	5050 P	5100 C	5100 P	5150 C	5150 P	5200 C	5200 P	5250 C	5250 P
Dec	222½	28	180	36	141½	49½	104½	65	78	86½	51½	114	31½	147½	24	188
Jan	300	90	264	102½	228	117½	198½	139	167½	160	136½	181½	112½	211	91	241½
Feb	367½	133½	332	148	301	167	268½	186½	236	206½	205	228	178½	255½	154½	284
Mar	402	165	370½	183	338	201½	306	220½	272½	239½	241	260½	215½	285½	192½	313
Jun†			494	256			432½	293½			370½	333			318	384

Calls 1,041 Puts 3,210

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4875 C	4875 P	4925 C	4925 P	4975 C	4975 P	5025 C	5025 P	5075 C	5075 P	5125 C	5125 P	5175 C	5175 P	5225 C	5225 P
Dec	198	33½	157½	43	121½	56½	89½	74½	63½	98½	43	127½	28½	161	15	199½
Jan	281	96	245½	110	212	126	179	143	151	164	126	189	102	214½	80	242
Feb	346	134	312	149½	279½	166	249	165	220½	205½	192½	227	167½	251½	145	278
Mar			359	188			290	226			235	269½			192½	328
Jun†			468	249½			409	286½			351	325			287	367½

Calls 2,115 Puts 15,970 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	51.1	102	99½	Advance UK Tst	102		-	-	-	-
§250	F.P.	70.0	265	262	Autologic	264½		R7.5	2.0	3.5	18.1
-	F.P.	1,354	30½	29½	BG 'B'	30½		-	-	-	-
-	F.P.	13.7	21½	16½	Bouxtead	20½		-	-	-	-
§200	F.P.	212.6	204½	184½	Bovis Homes	188½	-6½	R9.4	2.4	6.2	8.4
§90	F.P.	16.7	134½	102½	†CRC	130½	-1	W-	-	-	23.4
§	F.P.	6.82	114	113½	Capital Opps Tst	113½		-	-	-	-
§-	F.P.	2.38	73	60	Comland Comm	60	-5	-	-	-	15.3
§150	F.P.	8.47	153½	153½	†Cresco Intl	153½		-	-	-	-
-	F.P.	-	£177	£169	Fmg Grd Units	£177		-	-	-	-
*	F.P.	18.4	100	85	Foresight Tech	[illegible]					
-	F.P.	1.00	35	5½	Do Warrants	[illegible]					
§	F.P.	20.2	270	270	Manchester & Lon Inv	[illegible]					
§	F.P.	8.17	57½	55	†Market Link Publ	[illegible]					
*	F.P.	74.5	99½	70½	†Metalrussia	[illegible]					
§45	F.P.	22.2	57½	50½	†Minorplanet Sys	[illegible]					
-	F.P.	23.3	144½	115½	Nihn Recruitment	[illegible]					
70	F.P.	24.5	63½	53	NottTham Forest	[illegible]					
-	F.P.	8.12	6½	8	†Range Cooker Co	[illegible]					
-	F.P.	21.0	98½	93½	†Rapid Technology	[illegible]					
§102	F.P.	23.2	102½	102½	†Razorback Vhcls	[illegible]					
§105	F.P.	36.1	114½	112½	ScS Upholstery	[illegible]					
§95	F.P.	5.58	114½	104½	†Savoy Asset Mngt	[illegible]					
§250	F.P.	15.9	256	250	Seascope Ship	[illegible]					
§	F.P.	159.7	101½	96½	Second Scot Natl	[illegible]					
§	F.P.	100.4	101	100	Do Zero Div Prf	[illegible]					
§230	F.P.	50.8	238½	230	Synter	[illegible]					
§160	F.P.	44.2	176	160	Tetra	[illegible]					
*	F.P.	-	50	40½	Vanguard Md Wts	[illegible]					

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Dec 10	% chg on day	Dec 8	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (33)	933.74	+3.4	903.02	1900.28	2.96	-	1997.40	998.02
Regional Indices								
Africa (15)	929.78	-0.5	934.87	2171.59	7.62	16.57	2333.56	921.78
Australasia (6)	939.71	-2.5	963.53	2158.29	3.94	11.99	2217.80	939.71
North America (12)	945.54	+5.7	894.94	1793.48	1.36	35.15	1793.48	894.94

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

[illegible]

FTSE Actuaries Industry Sectors

[illegible]

Hourly movements

[illegible]

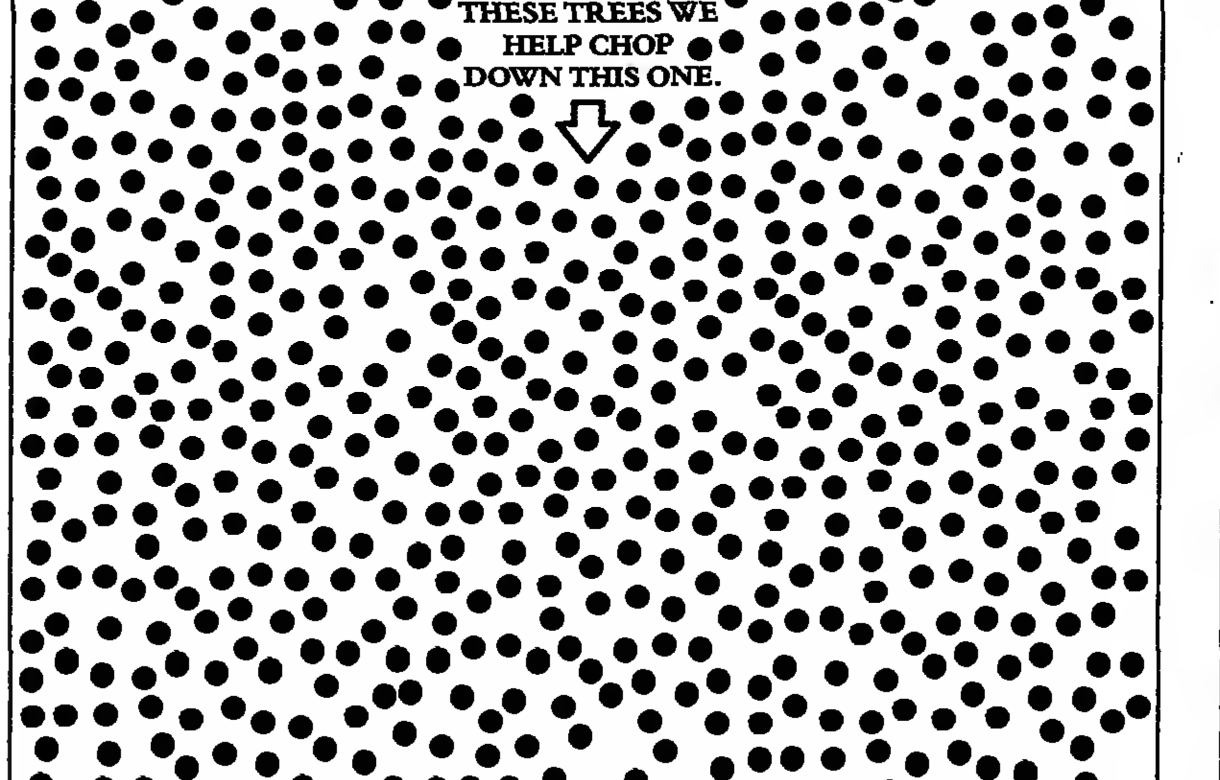
FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks Yesterday

	Vol 000s	Closing price	Day's change
3i†	773	504½	+1½
AMVESCAP	783	488	+3
ASDA Group†	5,900	172	-2½
Abbey National†	2,500	1035	+2
Airtours	83	1200	-2½
Alliance & Leicester†	819	773	-11
Allied Domecq†	1,800	523	+12½
Anglian Water	791	834	-3
Argos	702	578½	-18
[illegible]			

Based on trading volume for a selection of major securities yesterday until 4.30pm. † Indicates a FTSE 100 index constituent.



Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 11 / Sch)

BELGIUM/LUXEMBOURG (Dec 11 / Frs.)

CZECH REP (Dec 11 / Koruna)

DENMARK (Dec 11 / Kr)

FINLAND (Dec 11 / Mks)

FRANCE (Dec 11 / Frs.)

GERMANY (Dec 11 / Dm.)

GREECE (Dec 11 / Drachma)

ITALY (Dec 11 / Lire)

NETHERLANDS (Dec 11 / Fls.)

NORWAY (Dec 11 / Kroner)

POLAND (Dec 11 / Zloty)

PORTUGAL (Dec 11 / Escudo)

SPAIN (Dec 11 / Pts.)

SWEDEN (Dec 11 / Kronor)

SWITZERLAND (Dec 11 / Frs.)

TURKEY (Dec 11 / Tk Lira)

PACIFIC

JAPAN (Dec 11 / Yen)

HONG KONG (Dec 11 / H.K.$)

INDONESIA (Dec 11 / Rupiah)

MALAYSIA (Dec 11 / MYR)

NEW ZEALAND (Dec 11 / NZ $)

SINGAPORE (Dec 11 / S$)

AUSTRALIA (Dec 11 / Aus$)

SOUTH KOREA (Dec 11 / Won)

TAIWAN (Dec 11 / TW $)

THAILAND (Dec 11 / Baht)

AFRICA

SOUTH AFRICA (Dec 11 / Rand)

NORTH AMERICA

CANADA

TORONTO (Dec 11 / Can $)

4 pm close

MONTREAL (Dec 11 / Can $)

4 pm close

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY DECEMBER 10 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY DECEMBER 9 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (74)	199.38	-0.8	178.98	162.61	184.81	198.09	-1.1	3.81	200.84	181.04	164.97	187.48	200.40	243.87	190.41	217.92
Austria (22)	190.70	-0.5	171.18	155.53	176.77	176.66	-1.2	1.92	191.89	172.71	157.37	178.85	178.74	213.59	175.14	185.37
Belgium (27)	254.64	0.1	228.50	207.59	235.94	230.93	-0.5	2.88	254.30	229.12	208.77	237.28	232.09	261.11	221.31	224.29
Brazil (30)	222.15	-3.8	199.42	181.18	205.92	455.15	-3.7	1.84	230.93	208.08	189.58	215.46	472.55	322.44	178.98	184.78
Canada (122)	215.60	-0.3	193.54	175.84	199.85	222.15	-0.2	1.77	216.18	194.75	177.46	201.88	222.53	238.66	176.27	191.51
Denmark (32)	436.13	0.2	391.51	355.70	404.27	402.82	-0.4	1.27	435.24	392.14	357.32	406.06	404.50	436.21	334.25	339.55
Finland (26)	287.03	-1.8	257.67	234.10	266.06	323.71	-2.5	1.94	292.33	263.37	239.99	272.74	332.19	349.43	232.88	244.11
France (84)	236.09	-0.1	211.94	192.55	218.84	221.02	-0.7	2.41	236.25	212.85	193.95	220.42	222.62	246.23	203.78	206.42
Germany (58)	225.87	-0.8	202.77	184.22	209.37	209.37	-1.4	1.40	227.62	205.07	186.86	212.36	212.36	243.87	183.03	188.78
Hong Kong, China (66)	366.13	-3.9	328.70	298.63	339.41	364.08	-3.8	4.39	380.80	343.09	312.62	355.28	378.38	580.08	314.78	506.73
Indonesia (27)	85.04	0.6	76.34	69.36	78.83	229.81	-3.2	2.93	84.55	76.13	69.41	78.89	237.31	254.90	84.55	223.25
Ireland (16)	404.34	-1.3	362.98	329.78	374.81	392.32	-1.4	2.52	409.57	369.01	336.24	382.13	397.80	409.57	310.29	315.88
Italy (53)	110.66	-0.2	99.34	90.25	102.58	144.22	-0.8	1.69	110.85	99.88	91.01	103.43	145.41	115.27	78.11	80.44
Japan (482)	100.75	0.1	90.44	82.17	93.39	82.17	-0.8	0.87	100.67	90.70	82.64	93.92	82.64	141.12	95.91	138.13
Malaysia (107)	191.61	0.2	172.01	156.27	177.61	270.48	0.2	2.69	191.17	172.23	156.94	178.36	270.04	660.85	170.21	595.59
Mexico (27)	1706.85	-1.5	1532.24	1392.06	1582.17	15182.31	-1.2	1.60	1732.15	1580.60	1422.02	1616.07	15360.95	1901.98	1147.96	1198.86
Netherlands (19)	410.67	-0.5	368.66	334.94	380.68	376.56	-1.2	2.23	412.80	371.92	338.89	385.14	381.05	440.67	313.78	318.40
New Zealand (14)	82.64	-0.2	74.19	67.40	76.61	72.98	-0.8	4.24	82.77	74.58	67.95	77.23	73.57	96.47	75.37	91.35
Norway (38)	332.81	-0.4	298.78	271.43	308.50	327.45	-0.7	1.86	334.13	301.06	274.33	311.76	329.70	374.64	277.33	288.15
Philippines (22)	93.90	-0.9	84.29	76.58	87.04	164.95	-0.5	1.27	94.74	85.35	77.78	88.39	165.69	214.07	78.40	201.25
Singapore (42)	257.47	-1.7	231.18	209.96	238.66	192.07	-2.0	1.66	261.82	235.89	214.94	244.27	196.04	448.01	215.21	417.54
South Africa (43)	259.75	-1.1	233.17	211.84	240.77	277.39	-1.0	3.11	262.61	236.60	215.59	245.01	280.25	370.12	259.47	319.83
Spain (33)	270.99	-0.8	243.27	221.01	251.13	309.21	-1.4	2.19	273.12	246.07	220.22	254.82	313.62	277.33	198.92	202.22
Sweden (49)	479.94	-0.3	430.84	391.43	444.88	554.32	-1.4	1.87	484.55	436.56	397.79	452.08	562.22	538.94	402.43	414.53
Switzerland (31)	332.09	0.5	298.12	270.85	307.83	297.13	-0.8	1.13	330.53	297.79	271.35	308.38	299.65	332.47	231.69	236.41
Thailand (39)	24.85	0.0	22.31	20.27	23.04	40.86	0.0	6.95	24.85	22.39	20.40	23.19	40.86	109.20	22.52	108.93
United Kingdom (214)	332.39	-0.5	298.38	271.09	308.11	298.38	-0.8	3.30	333.96	300.88	274.16	311.58	300.88	337.99	264.87	267.92
USA (642)	395.32	-0.7	354.88	322.42	366.45	395.32	-0.7	1.57	397.90	358.50	326.66	371.24	397.90	401.22	293.43	304.36
Americas (821)	359.03	-0.7	322.30	292.82	332.81	302.86	-0.7	1.58	361.46	325.66	296.74	337.23	305.00	365.75	268.24	278.33
Europe (704)	286.95	-0.4	257.59	234.03	265.99	269.80	-1.0	2.38	288.07	259.54	236.49	268.77	272.48	298.25	227.46	230.84
Nordic (147)	419.42	-0.8	376.52	342.07	388.79	422.49	-1.3	1.76	422.96	381.07	347.23	394.62	428.22	464.93	345.30	355.51
Pacific Basin (873)	111.64	-0.4	100.22	91.05	103.48	91.88	-1.0	1.61	112.10	100.99	92.03	104.58	92.73	158.99	107.50	156.33
Euro-Pacific (1577)	184.77	-0.4	165.87	150.69	171.27	158.66	-1.0	2.11	185.50	167.13	152.29	173.07	160.23	209.12	173.56	137.26
North America (764)	383.94	-0.6	344.66	313.13	355.89	388.70	-0.6	1.58	386.38	348.11	317.20	360.49	385.12	389.57	286.81	297.60
Europe Ex. UK (490)	256.38	-0.3	230.13	209.08	237.66	247.69	-1.1	1.84	257.24	231.76	211.18	240.00	250.37	267.07	202.63	206.03
Pacific Ex. Japan (391)	209.25	-2.0	187.64	170.66	193.96	205.87	-2.2	3.78	213.56	192.01	176.33	199.25	210.80	320.65	194.60	313.26
World Ex. US (1799)	188.45	-0.5	169.17	153.70	174.69	165.23	-1.0	2.09	189.30	170.55	155.41	176.61	168.84	212.88	176.94	188.38
World Ex. UK (2227)	247.74	-0.8	222.40	202.05	229.64	224.95	-0.8	1.65	249.13	224.46	204.53	232.44	226.77	262.69	211.16	221.52
World Ex. Japan (1959)	332.24	-0.6	298.25	270.97	307.97	325.36	-0.8	1.94	334.37	301.25	274.50	311.96	328.10	344.35	264.51	271.43
The World Index (2441)	254.93	-0.6	228.85	207.81	236.31	231.63	-0.8	1.62	256.34	230.95	210.44	239.16	233.51	268.47	216.61	225.51

Emerging markets: IFC Investable indices

3:45 pm December 11

NEW YORK STOCK EXCHANGE PRICES

Price data supplied by Exel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. tIs-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ¶ Dealings suspended.

Owing to technical problems, some NASDAQ & NYSE prices in today's FT are pre-close.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Dec 10	Dec 9	Dec 8	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7978.79	8049.66	8110.84	8259.31 (6/8)	6391.69 (11/4)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	104.51	104.48	104.54	104.86 (4/12)	101.09 (14/4)	104.86 (4/12/97)	54.99 (1/10/81)
Transport	3334.90	3340.30	3352.43	3358.27 (15/10)	2222.07 (2/1)	3358.27 (15/10/97)	13.23 (8/7/32)
Utilities	260.42	259.82	258.87	261.16 (1/12)	209.47 (25/4)	261.16 (1/12/97)	16.53 (8/7/32)

DJ Ind. Day's high 8077.27 (8142.87) Low 7881.07 (7980.98) (Theoretical) · Day's high 8048.42 (8111.09) Low 7922.85 (8028.77) (Actual)

Standard and Poors	Dec 10	Dec 9	Dec 8	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	969.79	975.78	982.37	983.79 (5/12)	737.01 (2/1)	983.79 (5/12/97)	4.40 (1/6/32)
Industrials¶	1123.17	1129.02	1137.70	1146.82 (7/10)	865.42 (11/4)	1146.82 (7/10/97)	3.62 (30/6/32)
Financial¶	118.86	120.30	120.83	120.83 (8/12)	80.75 (2/1)	120.83 (8/12/97)	7.13 (4/9/74)
Others							
NYSE Comp.	507.70	510.86	513.44	514.31 (5/12)	389.47 (11/4)	514.31 (5/12/97)	4.84 (25/4/42)
Amex Comp	669.45	671.55	673.49	721.90 (7/10)	541.20 (28/4)	721.90 (7/10/97)	524.30 (16/7/98)
NASDAQ Cmp	1586.81	1620.55	1651.54	1745.85 (9/10)	1201.00 (2/4)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	432.81	438.16	442.03	465.21 (13/10)	335.85 (25/4)	465.21 (13/10/97)	122.36 (7/12/93)

RATIOS

	Dec 5	Nov 28	Nov 21	Year ago
Dow Jones Ind. Div. Yield	1.68	1.74	1.73	2.06
	Dec 10	Dec 3	Nov 26	Year ago
S & P Ind. Div. yield	1.48	1.46	1.50	1.85
S & P Ind. P/E ratio	26.09	26.38	25.78	23.04

US DATA

MARKET ACTIVITY

● Volume (million)	Dec 10	Dec 9	Dec 8
NYSE	605.570	544.060	493.480
Amex	29.571	26.370	24.733
NASDAQ	750.548	811.087	642.229

NYSE	Dec 10	Dec 9	Dec 8
Issues Traded	3,434	3,440	3,477
Rises	1,004	1,124	1,602
Falls	1,957	1,779	1,346
Unchanged	479	548	529
New Highs	192	170	243
New Lows	79	51	23

NYSE TRADING ACTIVITY — Volume : 628,752,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Compaq	13,741,300	80	-3⅝
Bay Networks	8,979,000	25¼	-2¼
Ph Morris	8,790,300	45⅝	+¾
AT&T	5,365,600	57⅞	-½
IBM	4,907,700	106⅝	-3⅜
Tel Brasil	4,907,100	103⅞	-5⅛
Motorola	4,515,300	59⅝	-2⅞
Hosp Prop	4,222,300	33¼	
Humana	4,173,000	21⅝	-2⅝
Gen Elect	4,032,166	73⅝	-⅝

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Ind Natural	23⅝	+3⅝	+17.5
Time Warr Fin	49⅝	+4⅝	+10.2
Mgn Keegan	25⅝	+1⅞	+7.2
Stone Energy	34	+2	+6.2
Downs			
Fr McM Gd	16⅝	-2⅝	-14.6
Excel Cont	16⅝	-2⅝	-13.6
Compusa	31⅝	-4⅛	-11.4
Navis Natur	36⅞	-2⅞	-7.4

NASDAQ TRADING ACTIVITY — Volume 832,132,000

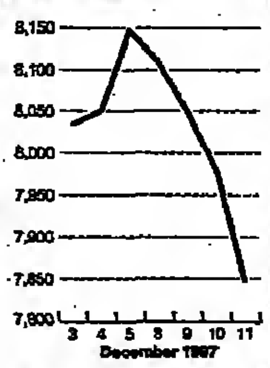
ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Oracle	66,061,300	23¼	+½
Intel	20,382,000	74⅞	-⅞
Oxford Hlth	15,686,900	17⅛	-2⅞
Appl Matls	14,982,400	31⅝	-1⅞
Dell comp	14,913,600	91⅛	-2⅞
Viasa	13,353,400	13⅞	-6¼
Cisco Sys	11,831,600	65⅝	-2¼
LM Erics Tel	9,557,300	35⅝	-2⅝
Microsoft	8,287,300	142⅝	-2¼
3Com	7,739,300	35⅝	-1⅞

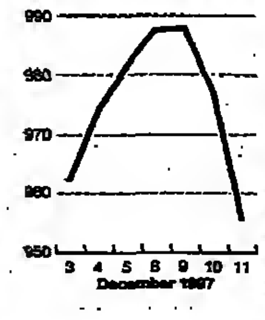
BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
High Cntry	14⅛	+4⅞	+44.4
Fst Hm Bacp	30⅞	+6½	+22.0
Caspt Dir	23½	+3⅝	+18.7
Flamm	23	+3⅜	+17.2
Downs			
Viasa	13⅞	-6⅞	-31.4
Microage	16⅝	-4⅞	-22.3
Fla Host	16⅝	-5⅛	-21.6
Fredy Ice	13⅛	-3⅛	-19.6

Dow Jones



FTSE Eurotop 300



JAPAN

	Dec 11	Dec 10	Dec 9	1997 High	1997 Low	Since compilation High	Since compilation Low
Nikkei 225	16050.15	16478.12	16686.51	20681.07	15082.52	38915.9	85.25

TOKYO TRADING ACTIVITY — Volume : 422,000,000

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Hokk Tkis Bk	24,981,000	1	
Np Steel Co	24,455,000	189	-14
Yamaichi Sec	18,815,000	1	
Sakura Bank	9,670,000	480	+18
NKK Corp	8,209,000	110	-6
Yasuda T & B	7,883,000	158	-12
Kawasaki Steel	7,017,000	184	-18
Itochu Corp	6,475,000	230	-39
Fuji Bank	5,867,000	613	-27
Daiwa Secs	5,528,000	436	-18

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
Keihin	299	+28	+10.3
Sumo Forst	630	+55	+9.6
Toshiba Plst	305	+25	+8.9
Odakyu Cns	298	+23	+8.4
Downs			
Nissan Cons	170	-30	-15
Itochu Corp	230	-39	-14.5
Np Metal Ind	154	-26	-14.4
Tkyo Tekko	111	-16	-14

FRANCE

	Dec 11	Dec 10	Dec 9	1997 High	1997 Low	Since compilation High	Since compilation Low
CAC 40	2828.45	2932.18	2959.40	3094.81	2256.97	3094.01	884.61

PARIS TRADING ACTIVITY — Volume : 827,399,180

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Usinor	2,556,041	81	-5
Paribas	2,290,325	808	-31
B.N.P.	1,729,888	324.8	-25.2
Fr Telecom	1,620,200	210.1	-6.8
Elf Aqitne	1,252,245	651	-35
Rhn-Plnc A	1,168,275	252	-14
Axa-UAP	1,153,509	431.9	-5.8
Total B	1,118,880	601	-22
Danone	1,054,176	1024	+34
Renault	973,855	164	-8.1

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
GLM	254.6	+23.6	+10.2
Courtage	713	+63	+9.7
Sommer-Allibrt	210.1	+10.8	+5.3
Kali-Saint	720	+36	+5.3
Downs			
Apache	1610	-590	-26.8
Locindus	58.4	-13.6	-18.9
Grand Bazar	137	-22.5	-14.1
Labs Dolisos	120	-15	-11.1

GERMANY

	Dec 11	Dec 10	Dec 9	1997 High	1997 Low	Since compilation High	Since compilation Low
DAX	4030.16	4117.27	4184.91	4438.93	2848.77	4438.93	931.18

FRANKFURT TRADING ACTIVITY — Volume : 10,195,000

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Commzbnk	892,574	65.9	-1.3
Deutsche Bk	820,963	120.05	-4.6
Siemens	570,024	103.4	-2.6
Bayer	465,951	62.7	-1.45
Dresdner Bk	422,481	78.9	-0.8
Dt Telekom	394,474	33.75	-0.15
BASF	380,903	59.5	-1.35
Daimler-Benz	329,119	122.8	-4.2
Veba	319,075	111.4	-2
Hoechst	312,716	53.75	-1.2

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
Herlitz NV	116	+8.2	+8.7
Bran & Brnn	169.5	+11.5	+7.3
Fresenius Md	119.5	+5.5	+4.8
Phoenix	31.5	+1	+3.3
Downs			
Leica	30.5	-4	-11.6
Einhell NV	21.5	-2.5	-10.4
Duerr	54.5	-5.2	-8.7
Villeroy NV	250	-20	-7.4

UK

	Dec 11	Dec 10	Dec 9	1997 High	1997 Low	Since compilation High	Since compilation Low
FTSE 100	5035.9	5130.7	5177.1	5330.80	4056.60	5330.8	986.9

LONDON TRADING ACTIVITY — Volume : 880,700,000

ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
BSkyB	20,058,200	441	-11
BTR	20,042,820	183	+2
LucasVarity	19,936,430	192½	+1½
Shell Trns	17,788,330	431	-9
BP	11,070,460	815	-24
Royal & Sun	10,811,290	611½	+2½
Unnch Union	10,552,080	364	-1
SmKl Bchm	9,312,759	608	-17
British Steel	9,284,834	132	-7
GrandMet	8,823,475	564	-3

BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
ILP Grp	29½	+5½	+22.9
Plasmec	225	+40	+21.6
Indl Control	49	+8	+19.5
Triplex Lyd	263½	+34	+14.8
Downs			
Zicor Mining	4	-1½	-27.3
Pers. Prop	18½	-4½	-19.6
Ricardo Ins	18½	-3	-15.4
Petaling Tin	37	-5	-11.9

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	969.50	959.70	-10.50	970.20	956.20	147,605	255,439
Mar	975.00	969.50	-11.70	975.00	967.00	48,796	159,111
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Dec	16280.0	16070.0	-450.0	16370.0	15960.0	8,012	77,993
Mar	16330.0	16100.0	-390.0	16400.0	16030.0	21,830	133,142

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	2885.0	2832.0	-103.0	2893.0	2830.0	19,440	39,433
Jan	2892.0	2839.0	-103.0	2892.0	2839.5	104	7,830
DAX							
Dec	4041.0	4023.0	-89.0	4061.5	4007.0	28,719	68,267
Mar	4079.5	4059.5	-94.0	4097.5	4048.5	4,380	16,694

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	2399.50	2359.00	-72.00	2400.00	2346.00	6,764	29,092
Jan	2397.00	2367.75	-81.25	2397.00	2355.00	646	2,501
SOFFEX							
Dec	5977.0	5995.0	-45.0	6012.0	5937.0	5,422	21,758
Jan	5970.0	6003.5	-75.0	5975.0	5941.0	874	3,286

WORLD MARKETS AT A GLANCE

Country	Index	Dec 11	Dec 10	Dec 9	1997 High	1997 Low	Yield	P/E
Argentina	General	21207.22	21893.26	23025.76	25771.20 22/10	18237.37 2/1	3.36	18.4
Australia	All Ordinaries	2516.8	2554.7	2582.8	2778.28 25/8	2288.20 29/10	3.58	18.4
	All Mining	561.3	568.6	581.5	987.10 24/2	541.19 27/11		

Falls inspired by US losses steepened in late trading in spite of encouraging employment data.

Country	Index	Dec 11	Dec 10	Dec 9	1997 High	1997 Low	Yield	P/E
Hungary	Bux	6958.40	7405.33	[illegible]	[illegible]	[illegible]		

Shares fell 6 per cent on November inflation. [illegible]

Country	Index	Dec 11	Dec 10	Dec 9	1997 High	1997 Low	Yield	P/E
India	BSE Sens.	3329.14	3347.33	[illegible]	[illegible]	[illegible]		
	Crisil 500	615.84	620.90	[illegible]	[illegible]	[illegible]		

Shares closed their lowest of the session, but sentiment [illegible]

[illegible]

NASDAQ NATIONAL MARKET

3:30 pm December 11

[illegible]

NASDAQ NATIONAL MARKET

[illegible]

AMEX PRICES

4 pm close December 11

[illegible]

EASDAQ

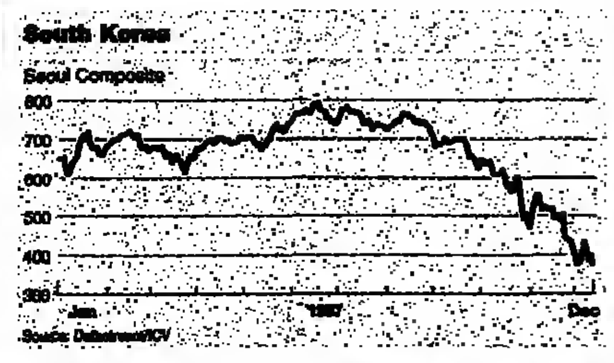
[illegible]

Asia back in spotlight as markets retreat

WORLD OVERVIEW

Asia's problems returned to centre stage yesterday as world stock markets traded lower in response to bearish news from the region, *writes Jonathan Ford.*

Dissatisfaction with the Japansse governmsnt's financial stability package, and its lack of economy boosting measures, left investors with no positive news to counter grim tidings from elsewhere in Asia.



Korea's market went heavily into reverse after Wednesday's edgy gains as the won took another battering and international investors failed to respond to government measures to promote foreign investment.

In Hong Kong, a rise in interbank rates and weak prices at a government land auction hit banking and property ehares, both key components of the Hang Seng index.

Investors elsewhere expressed their concern by marking down stocks seen as vulnerable to Asia's problems – a trend last seen in the aftermath of ths first correction in late October.

European banking shares, which have been relatively insulated from Asia due to investors' focus on restructuring bopes, suffered heavily after a profit warning from JP Morgan of the US, which blamed "unsettled market conditions globally", taken as' a synonym for Latin America and Asia.

Technology stocks, on the slide since Tuesday's profit warning from Oracle of the US, remained out of favour. SAP, the German software group, went so far as to issue a statement that it did not expect the Asian turmoil to havs an adverse impact on its profits in 1998. Europe was also hit by weakness in the dollar and another sharp fall on Wall Street in early trading.

Analysts blamed changing investor sentiment for the sudden correction. Having turned a blind eye to Asia's problems for almost a month, investors were stung into action by Japan's failure to produce a convincing rescue package.

"The markets have been quite surprised at the speed of the recovery since October, and sentiment is still fragile," said Joe Rooney, global strategist at Lehman Brothers.

"The main trigger for this correction has been Japanese developments, where investors feel the political authorities have failed to draw a line under the region's problems by addressing their own bad-debt problem."

However, he did not believe the fresh bout of jitters would lead to a more prolonged correction.

"Equity markets are going to get support from lower yields and, with some economic slowdown in the US, that trend is going to be more pronounced. In addition, the earnings trend in developed markets is still intact, and Asia is not going to dislocate that trend."

Dow drops below 7,900 in broad sell-off

AMERICAS

Growing concern abont overseas markets, and the impact of Asia's troubles on US earnings, led to renewed selling on Wall Street, with the Dow Jones Industrial Average falling below 7,900, *writes John Labate in New York.*

Yesterday'e bearish session was the fourth downbeat day for blue-chip stocks. Unlike the previous sessions, however, the sell-off was broad, with declining stocks leading advancers by a margin of nearly 4 to 1. Few sectors were spared.

By early afternoon the Dow had fallen 151.19 or 1.9 per cent to 7,827.60. The broader Standard & Poor's 500 index was almost as weak, losing 16.62 or 1.7 per cent at 953.17.

The sharpest falls were in the technology sector, as the Nasdaq composite index plunged 43.35 or 2.7 per cent to 1,553.26.

"The bond market is strong today but it is not helping stocks because the market is looking at earnings," said Richard McCabe, chief market analyst at Merrill Lynch.

"The market had risen so fast that the least worry after a sharp rally can be seized upon to do some selling," he added.

Bonds rallied during the morning on the release of weaker-than-expected consumer spending figures for November. Overnight weakness in Asia also helped bolster morning Trsasury prices.

By midday, the 30-year bond had gained ⅔ to 101⅔, sending the yield down to 6.014 per cent.

Fears of weaker technology earnings led the Dow lower, as IBM and Hewlett-Packard each lost close to 5 per cent. IBM traded at $101⅞ while HP fell to $60⅜.

The financial sector was also sharply lower a day after J.P. Morgan'e profits warning. Citicorp dropped $5⅞ to $126¼ and BankAmerica loet $3¾ at $74⅞. J.P. Morgan fell a further $2½ to $115⅝ after an analyst at Lehman cot his estimate of fourth-quarter earnings per share.

In the tech sector, semiconductor shares were among the worst performers as the Philadelphia Stock Exchange's chip index plunged more than 6 per cent to 259.49. Software company Oracle also fell back, losing $1⅞ to $22⅛.

TORONTO traded 1.5 per cent lower at midsession with weakness recorded in all but one of the market's 14 sub-indices. The TSE-300 composite index was 101.33 lower at 6,653.20.

Barrick Gold gained 10 cents to C$22.80 after the company said it planned a share buy-back.

Prims Resources Group was 5 cents higher at C$8.50, off a high of C$9, after news on Wednesday that it and Homestake Mining of the US had dropped plans for a $110m acquisition of the Trolus gold mine from Imnet Mining. Imnet lost 45 cents to C$5.70.

Oxford Properties was 60 cents lower at C$40 after the group said it had acquired an office building in Tampa, Florida, for $26.2m.

São Paulo tumbles 6%

Sharp early falls on Wall Street contributed to a tough day for Latin American markets.

SAO PAULO extended Wednesday's 3.8 per cent fall, shedding another 6 per cent in morning trading. The Bovespa index stood at 8,891, down 571, by midsession.

Dealers said that buyers, already scarce because of next week's options expiry, had disappeared from view. Volumes were very thin.

Telecommunications giant Telebrás led thé market lower, tumbling R$7.40 to R$109.10 to hit its lowest level since November 24.

MEXICO CITY lost ground at ths opening as dealers marked down shares in telephons utility Telmex, the market's beaviest weighted stock.

Telmex fell 68 centavos to 19.92 pesos, tracking falls in the group's US-listed ADRs. Dealers said the stock had held up well during the market volatility of recent days and signs that it might be cracking had eoured sentiment. The IPC index was 140.4 lower at 4,905.03.

Paris investors run for cover

EUROPE

Shares in PARIS tumbled 3.5 per cent as investors ran for cover from a deeply troubled Asia and the early bear raid on Wall Street.

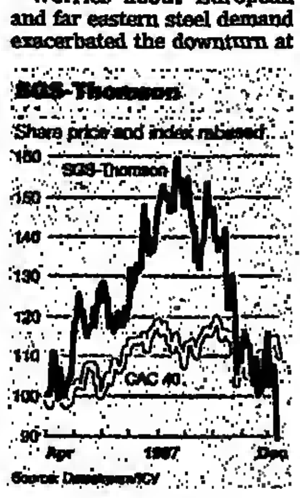
It was the beaviest one-day decline since late October, with the CAC 40 off 103.7 at 2,828.45, and the most active seseion for weeks. Volume was almost 24m shares.

SGS-Thompson sustained the deepest wounds, sliding to a low of FFr327 on the back of the shakeout for US computer-related sectors. The sbares closed off FFr41.50 or 10.9 per cent at FFr338, against a late September peak of FFr582.

Financials met with rampant profit-taking. Paribas, up almost 20 per cent in two days on takeover rumours, fell FFr31 or 5.8 per cent to FFr506.

BNP fell with an even beavier thud, crashing FFr25.20 or 7.2 per cent to FFr324.80.

Worries about European and far eastern steel demand exacerbated the downturn at Ueinor, which fell FFr5 to FFr81 after HSBC James Capel downgraded the shares.



Danone provided the one firm feature among CAC components, gaining FFr34 to FFr1,024 on talk of further reorganisation for the foods group. Among lesser caps, Bouygues added FFr18 to FFr701 on asset sale speculation.

FRANKFURT was under pressure late in the session and the Xetra Dax index finished 100.00 down st 4,016.70. Analysts noted that Wednesday's profits warning from J.P. Morgan, the US investment bank, had put particular pressure on banking shares.

On the corporate front, software group SAP was hit by concerns about the effects of the Asian problems, altbougb tbe company insisted it saw no substantial impact from Asia and said it planned to employ 4,000 to 5,000 new staff next year. The preference shares lost DM29.20 at DM522.

FTSE Actuaries Share Indices — European series

December 11

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj	Total retn (Ecu)
FTSE Eurotop 300	956.01	-2.11	-20.63	2.35	0.00	952.84
FTSE Eurotop 100	2208.48	-2.23	-50.40	–	–	–
FTSE Eurotop 300 Regions						
300 UK	972.88	-1.84	-18.27	3.23	0.00	967.81
300 Ex-UK	947.07	-2.27	-22.01	1.83	0.00	948.37
300 Eurobloc	930.24	-2.75	-26.35	2.06	0.00	933.61
300 Ex-Eurobloc	973.25	-1.67	-16.58	2.54	0.00	984.53
FTSE Eurotop 300 Economic Groups						
Resources	915.44	-2.67	-25.11	2.69	0.00	928.18
General Industries	887.06	-2.76	-25.20	2.22	0.00	889.18
Consumer Goods	946.37	-1.88	-18.18	1.92	0.00	956.54
Services	957.26	-1.88	-18.26	2.21	0.00	963.93
Utilities	995.08	-1.18	-11.90	3.01	0.00	1002.98
Financials	1013.73	-2.04	-21.13	2.26	0.00	1019.24

Base value 1000. More information on http://www.ftse.com. 'FTSE' and 'Footsie' are registered trade marks of the London Stock Exchange and The Financial Times. 'Eurotop' is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop Indices are compiled by FTSE International. © FTSE International Limited 1997. All rights reserved.

Siemens fell DM5.70 to DM100.20 as the electrical engineering group told its annual news conference that 1997/98 net incoms would rise by abont 15 per cent while extraordinary gains would add another DM400m-DM500m.

RWE, the ntility group, bucked the trend with a DM2.80 rise to DM93.50 after it reiterated its forecast of higher profits in the current business year.

Brau und Brunnen, the brewer, jumped DM13 to DM170 after upgrading its 1997 profits expectations. Bilfinger und Berger dropped DM4 to DM51.790 on worries about Asian exposure.

AMSTERDAM fell 26.77 to 883.53 on the AEX index as market heavyweight Philips tumbled 9.2 per cent.

Hit by the run on sentiment for US technology stocks, shares in the electronics giant fell Fl 12.10 to Fl 119.70 in heavy volume of 5.6m shares.

Hoogovene retreated Fl 3.90 to Fl 88.50 for a two-day decline of more than 8 per cent on a broker downgrade for European steel rival Usinor. Among financials, ABN Amro lost Fl 1.70 or 4.1 per cent at Fl 39.50.

Paper leader KNP BT and chemicals group DSM stood firm against the deluge of selling, adding 90 cents at Fl 43.50 and 70 cents to Fl 180.50 respectively.

ZURICH was enlivened by strong demand and an 8 per cent surge for Swiss Re. The broader market closed weaker but above its lows, with the SMI index 34.8 down at 6,021.8.

Swiss Re was eharply higher for a second straight day, as the company declined to comment on bourse speculation that Martin Ebner, Switzerland's best known corporate predator, or CS Group could be accumulating a large stake. The shares roseq SFr198 to SFr2,678.

UBS fell SFr47 to SFr2,129 and SBC was SFr15.50 lower at SFr454 as the merger partners continued to consolidate gains made this month.

CS Group picked up SFr11.50 to SFr238 as the chief executive ruled out any merger with the new United Bank of Switzerland.

Among cyclicals, ABB fell SFr54 to SFr1,805 and Sulzer gave up SFr28 to SFr900, still under pressure as a result of their exposure to Asian markets. Alusuisse, howsver, continued to benefit from a positivs batch of broker reports, and rose SFr11 to SFr1,351.

ATHENS tumbled 5.1 per cent in what was seen as an over-reaction to the latest downturn in Asia.

One dealer noted the market had gained about 17 per cent in the last month and was ripe for profit-taking. The general index fell 80.23 to 1,486.39 with some of the largest falls seen in the construction sector, which lost 6.9 per cent.

MOSCOW continued to retreat. Worries about the health of President Boris Yeltsin combined with stock market weakness internationally to push the RTS 21 index down by 8.1 per cent to 339.25, making a decline of 13 per cent in the past two sessions.

Written and edited by Michael Morgan, Jeffrey Brown, Jonathan Ford and Peter Hall.

SOUTH AFRICA

Johannesburg stayed weak with the all-share index sliding 143.6 or 2.4 per cent to 5,953.8 in spite of a better day for gold shares.

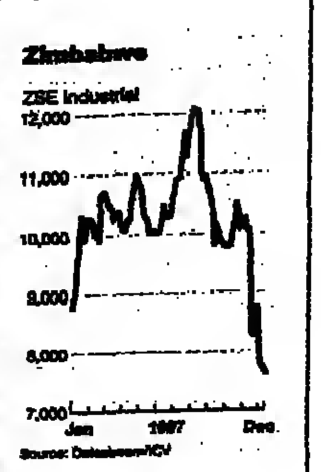
Industrials and financials led the way down. The industrial index fell 2.9 per cent, tumbling 212.8 to a two-year low of 7,137.9.

JCI remained under pressure, falling R1.40 to R21.50 for a two-day decline of R2.50. The golds index rallied 12.0 to 687.0.

EMERGING MARKET FOCUS

Investors shun Zimbabwe

Continued fears about a deepening political crisis, government mismanagement of the economy and worries about the weather have sent Zimbabwe's stock market tumbling.



The market was one of the best performers in the emerging markets sector in 1996 when it soared 92.5 per cent, but yesterday's session saw the industrials index hit a year low of 7,629, a fall of 13 per cent since the beginning of December alone. The index has fallen 37 per cent since its 1997 peak in August.

The roots of the decline were sown during the summer when the government announced a Z$4bn ($332m) compensation package for war veterans. Then, in November, the government confirmed it was to acquire some 1,500 mainly white-owned farms as a means of redistributing land to black people. The move sent both the local currency and the stock market plunging.

But just when bargain hunters had started looking to move into the market, Herbert Murerwa, Zimbabwe's finance minister, said the government was to levy an extra Z$2bn to help finance the compensation payment to war veterans. He said family and corporate taxpayers were to pay a 5 per cent levy that would bring in more than Z$1bn. Sales tax was raised by 2.5 per cent to 17.5 per cent. Yet the tax increases fell short of meeting the cost of the veterans' payout.

The rises met with fierce opposition and on Tuesday most of the country ground to a halt due to a national strike called by the Zimbabwe Congress of Trade Unions to protest against the higher taxes. The government has now called off most of the rises.

But the retreat has done little to halt the market slide. Christopher Hartland Peel at Standard Bank said: "Any foreign investor who put money into this market in January 1996 is now showing a loss."

He believes tbe land reform issue will rumble on for many months, and in a note to investors said: "The most depressing thing for Zimbabwe is that policies pursued by the government have been abandoned by many emerging market countries."

The problems have been compounded by ths slide in the currency. Having stabilising for a couple of weeks at Z$14.5 to the US dollar, it fell to Z$17.25 yesterday.

Jsnny Chamberlin at NatWest Markets says the weakness in ths currency is blocking a recovery In shares. Shs is also concerned that the recent slide might see Zimbabwe knocked out of the IFC's emerging market index.

"If it drops out of the IFC index following the sequestration of corporate assets, we believe there could be a meltdown as the index-weighted funds will no longer be required to invest in Zimbabwe," she said.

The political crisis has also bit ths agriculture-related business sector hard at a time of concern about the damage that the El Nino weather phenomenon could inflict on the agricultural sector. Agriculture remains one of the country's main foreign exchange earners.

Joel Kibazo

Seoul slips on currency woes

ASIA PACIFIC

South Korea's deepening currency crisis dashed hopes of renewed inflows of foreign funds to the market and left SEOUL more than 5 per cent lower on the day.

The plunge came on the same day that measures to raise the ceiling on foreign investment took effect, but dealers said there were no signs of foreign buying.

Instead there was another raft of bad economic news as the won fell to an historic low against the dollar. The stock exchange suspended the shares of publisher Ke Song Ma and Sam·Sung Pharmaceutical on rumours that they were insolvent. Credit agency Standard & Poor's cut the ratings of seven Korean banks.

Analysts said currency risk was deterring foreigners from buying Korean stocks. Blue chips, which had been expected to benefit from foreign buying, were hardest hit. The composite index fell 22.48 to 377.37.

KUALA LUMPUR plunged more than 7 per cent on regional instability. The composite index ended 47.18 lower at 589.18.

THE DAY'S FALLS

	% change
Kuala Lumpur	-7.4
Seoul	-5.6
Hong Kong	-5.5
Manila	-4.9
Bangkok	-4.9
Jakarta	-4.8
Taipei	-2.7
Tokyo	-2.6
Singapore	-2.3
Sydney	-1.5
Wellington	-1.3

A local broker, CIMB Securities, was charged with short-selling, which is banned. Although CIMB said it was innocent, analysts said that the move reflected the government's determination to take firm action against activities that it regards as damaging to the economy.

TOKYO plunged as investors displayed disappointment at a plan to support Japan's financial sector, *writes Michiyo Nakamoto.*

The Nikkei 225 average fell 427.97 or 2.8 per cent to 16,050.15 as clearer signs emerged that the government's plan would be aimed at preventing financial instability rather than at revitalising the Japanese economy. The index moved in a narrow range between 16,396.70 and 16,025.27. Losers outnumbered gainers 939 to 187 with 132 issues unchanged.

Investors decided to sit on the sidelines and monitor the progress of government discussions over whether to float Y10,000bn worth of new bonds in order to restore confidence in Japan's ailing financial system.

Weakness in other Asian markets was another dampening factor as the Korean currency nosedived. Investors were also braced for selling related to the settlement of December futures.

Against that gloomy backdrop, the broader-based Topix index fell 25.42 to 1,215.74. The Nikkei 300 was down 5.18 points to 242.20.

In London, the ISE/Nikkei 50 index fell 3.70 to 1,492.39.

Steel issues, sensitive to broad economic trends, were out of favour, with Nippon Steel falling Y14 to Y189. NKK lost Y6 to Y110 and Kawasaki Steel dropped Y16 to Y164.

In Osaka, the wait-and-see attitude took the OSE Average down 365.35 to 16,147.41 in moderate trading.

HONG KONG was battered for a third straight session by a rise in local interbank rates and a weakening currency.

The Hang Seng index dropped 602.19 to 10,420.22 as a disappointing government land auction added to market woes, pushing the index down to 10,258.98 at one stage.

Finance stocks were the hardest hit sector, with HSBC falling HK$12 to HK$186. In the property sector, Cheung Kong tumbled HK$2.25 to HK$50.75, and Sun Hung Kai Properties slid HK$3 to HK$56.25.

MANILA lost 4.9 per cent as the peso hit a record low against he dollar and profit-taking gained momentum. The composite index fell 97.21 to 1,875.63 in volume of around 1bn pesos, half Wednesday's levels. Philippine Long Distance Telephone, which accounts for 11 per cent of the index, came off 5.2 per cent to 825 pesos.

BANGKOK fell to a nine-year low as regional woes and baht weakness deflated sentiment. The SET index ended 19.16 or 4.9 per cent lower at 371.51. Investor confidence was depressed by a new low for ths baht plus talk of rights issues.

EMPLOYEE BENEFITS CONSULTANTS

Actuaries have been forced to diversify in a tough, new world, writes **Jonathan Guthrie**

Advisers switch to a varied repertoire

A British actuarial firm was once a kind of gentleman's club for bright mathematicians. Advising pension fund trustees in tha morning might be followed by a spot of golf in the afternoon.

Life is no longer so relaxed. Tougher competition has forced actuarial practices to become mucb more commercial in outlook. With the aim of building critical mass they have sought to expand both geographically and in the range of services offered.

Most now call themselves employee benefits consultants. The name denotes an eagerness to provide a full range of advice to companies on all aspects of rewarding staff, from medical and life insurance through to company cars. For the consultants' core product – working out the liabilities of a final salary pension scheme, and how well investments are likely to cover them – is close to becoming a loss leader.

The average price charged is estimated to have halved in nominal terms over the past 10 years. Ever faster and cheaper computers now perform in seconds calculations that whole departments once sweated over for weeks.

The consultants have survived the commoditisation of the valuation partly by broadening the scope of the advice they provide with it. They have also diversified into a range of related services. For example, investment consulting is now a highly profitable business for several of them, including the UK divisions of Watson Wyatt and William M. Mercer.

Investment consultants perform a neat trick. They charge trustees for advice on appointing managers to invest the assets of the pension funds they run. Yet if performance falters, the consultant may collect another fee for helping to replace the laggard.

During tha 1990s investment consultants have gained a stranglehold on the eward of investment mandates by occupational pension schemes, which control assets of £600bn. As a result they are wooed more keenly by investment managers than the trustees who, in theory, make the real decisions.

Benefits consultants have turned their hands to a range of other activities, as a proliferation of divisions within larger firms attests. Thus the UK division of Aon Consulting strongly promotes its communications department. This advises companies on how to explain to employees the value and function of the benefits they receive. For an extra fee it will also produce videos and literature.

Meanwhile, UK benefits consultants Bacon & Woodrow is keen to push the capabilities of its healthcare consulting operation which counsels companies on the medical insurance they provide for staff, as well as the insurers that sell it.

Several consultancies have pursued a slice of a rapidly-growing market for third-party administration. Here they take on the job of running a pension scheme from an employer that no longer wants to handle the job itself at the cost of a heavy investment in staff, systems and premises.

Traditionally only smaller companies have "outsourced" in this way. But the desire to cut costs has lured larger businesses, including British Telecom, BP and ICI.

Three or four years ago many senior executives at benefit consultancies were gloomy about prospects for genarating new revenue. One problem was that most diversifications involved selling more services to the same long-suffering clients – primarily the trustees and managers of occupational pension funds, and to a lesser extent, buman resources directors.

That had led in some instances to what David Strauss, chairman of benefits consultants Sedgwick Noble Lowndes, refers to as "product fatigue". Customers become cynical about the objectivity of a consultant when its main aim appears to be to sign them up for an ever-lengthening list of services. "If you are going to succeed you have to meet clients' needs, first and foremost," says Strauss.

At the moment their main need is for services in the consultants' core business area of advising on the solvency and design of occupational schemes. Despite the earlier gloomy predictions, "this market is booming and is stretched to capacity," according to Ron Amy, chief executive of Aon Consulting in the UK.

The reason is a series of upheavals in the rules governing occupational schemes (see story below).

The main problem for many consultancies has been finding staff to absorb the work they are taking on, billable at more than £100 an hour for a newly qualified actuary and more than £300 for a senior practitioner.

"Newly qualifieds" may now start work on salaries of over £40,000 a year. But with actuarial training taking over four years according to the Faculty and Institute of Actuaries, there is an inevitable lag between demand and supply.

Wage inflation is one of the growing costs that have ensured that consultants' margins have remained relatively static - typically at between 10 and 15 per cent – despite healthy revenue growth.

The yearly turnover of the largest consultants now challenges or breaches the £100m mark. For example, Sedgwick Noble Lowndes' UK consulting arm had revenues of £104m in 1996. William M Mercer was just behind, with £98m. Meanwhile Watson Wyatt in the UK had revenues of around £80m.

These figures show that despite recent growth, employee benefits consultancy is still not a huge business. Ron Amy estimates that the five biggest firms have 70 to 80 per cent of the market, which implies that total revenue may be little more than £500m a year.

An outside observer who has watched the creation of monolithic international accounting practices over the past few years, might conclude that similar consolidation is set to take place in employee benefits consultancy.

The consultants themselves are less sure. Even David Strauss is willing to admit that "there will always be niches in the market for smaller firms."

The truth is that even some of the big firms are, to an extent, niche operators. Thus Sedgwick Noble Lowndes specialises in advising smaller and medium-sized businesses, while Watson Wyatt targets FTSE 100 companies

Moreover, much consolidation has taken place. For example, William M Mercer is the result of a combination of mergers and organic growth. It is the UK arm of the Mercer Consulting Group, the world's largest benefits consultancy, which is based in Chicago. This is, in turn, owned by Marsh and McLennan, the world's biggest insurance broker.

Sedgwick Noble Lowndes and the UK arm of Aon Consulting were created by similar processes and are also offshoots of worldwide insurance broking business.

Watson Wyatt, meanwhile, is the result of a "strategic alliance" between US consulting business Wyatt and UK actuarial practice R Watson, set up with the aim of taking on more international business. This was cemented by Wyatt's purchase in 1994 of a 10 per cent share in the British actuarial business R Watson.

Bacon & Woodrow is the only larger UK employee benefits business that is still a truly independent partnership. One potential disadvantage became apparent in 1994 when a disgruntled client sued it for hefty damages.

Bacon & Woodrow successfully rebuffed the claim in the courts. But rivals nevertheless pointed out that a wealthy parent can provide a good deal of comfort in an increasingly litigious commercial world.

Another advantage of being a small part of a big organisation, in theory at least, is a constant stream of cross-referrals of business from other divisions, both locally and abroad

So it is striking that accountants who have entered the employee benefits business have, so far, had only a limited impact. Efforts to muscle in on the business in the early 1990s evoked a paranoid vision among bosses of traditional consultancies. They foresaw clients ditching them in favour of consultants working for auditors with powerful board-level contacts.

Those that have established a foothold include Coopers & Lybrand, KPMG, Price Waterhouse and Ernst & Young, which has formed an alliance with the medium-sized actuarial practice Lane, Clark and Peacock.

A tougher challenge for traditional consultants is likely to be a trough in business once the current peak has been dealt with

Another threat would be a loss of faith among UK employers in the value of the £50bn they spend on non-pay benefits every year. A recent survey by benefits consultancy Towers Perrin found that benefit programmes "bave little impact on recruiting motivating or retaining employees"

A majority of employees believed their benefits were worth less than 20 per cent of their pay, wheo the average cost was more than 30 per cent.

Towers Perrin claimed that its findings were a cue for companies to work harder at communicatiog the value of benefits to staff. But a cost-cutting finance director might see the results as an excuse to reduce benefits, or dispense with them altogether. And that would put the consultants out of a job.

PENSION FUND BUSINESS • by Barry Riley

Surge in business ebbs away

Pension changes threaten to undermine traditional work

British pensions consultants are juggling two trends. One relates to the fading surge in domestic business relating to changes in the corporate pensions scene, reflecting in particular the impact of the Pensions Act 1995. The other is the development of global consultancy firms in which Britisb components are playing a key role.

Actuaries are catching their breath after a hectic period in which the key provisions of the Pensions Act have been implemented. Many clauses came into effect on April 6 this year.

Certain other provisions, notably the controversial Minimum Funding Requirement, are to be phased in over the next few years. This will provide a flow of consultancy business, but on a smaller scale. And there is longer-term anxiety about the future of the existing mainstream corporate consultancy business.

"Some 90 per cent of the work that actuaries do is under threat," admits Huw Wynne-Griffith, senior partner of the medium-sized firm of consulting actuaries Barnett Waddingham.

Consulting actuaries have prospered over the past 25 years or so because of the growth of defined benefit (or final salary-linked) occupational pension schemes. These require special actuarial valuation services, and have also in many cases become customers for expensive asset-liability models.

Companies are now beginning to shift on a significant scale towards defined contribution (DC) schemes, following a trend strongly established in the US. Leading British companies which have switched to DC, at least for new employees, include Barclays Bank, W H Smith and IBM's UK subsidiary.

The actuarial advice requirements of DC schemes are usually much reduced, because the investment risks are borne by the scheme members and there is no need for statutory valuations.

There is, of course, transitional consultancy business to be done when existing schemes are restructured and it will take many years for the old defined benefit schemes to fade away, even if they are closed to new members.

Several important UK employers, including Guinness and Next, have decided to stay with the defined benefit structure. But almost all the *new* schemes being set up have the DC structure. The long-term prospects are, therefore, for stagnation or decline in the traditional business.

But Mr Wynne-Griffith remains optimistic. "Actuaries will have to find ways in which they can devote their attention to DC assets," he says. In any case, he insists, the switch to DC will be much slower than it has been in the US. And pension consultants will adjust to changing conditions. "The market will grow in some unexpected direction that we will react to," he adds.

The UK pensions industry may well provide new opportunities as it responds to fundamental changes arising from the government's pensions review, including the possible phasing-out of the second-tier State scheme Serps in favour of so-called "stakeholder" pensions.

"Consulting actuaries really are in the thick of it," remarked Paul Thornton, the Watson Wyatt partner who is chairman of the Association of Consulting Actuaries, in the ACA's annual review published last month.

With problems looming in the domestic market several of the big consultancy firms are seeking opportunities overseas.

Watsons, for instance, has teamed up with the US-based Wyatt Company to create e firm with global reach. The former Duncan C Fraser is now the UK arm of the US-based global consultancy William M Mercer. The other UK leader, Bacon & Woodrow, has struck a rather looser arrangement with the US firm Milliman & Robertson, to create the international trading name of Woodrow Milliman.

The firms' common objective is to build capacity so that they can provide a global service to global clients.

Traditional actuaries are also watching attempts by some of the big global accountancy firms to break into the pensions consulting business. If Coopers & Lybrand and Price Waterbouse succeed in merging next year their combined actuarlal practice would move into the top 10 in the UK.

So far, however, accountancy firms have been mainly limited to short-term business such as consultancy related to mergers and other corporate restructurings. They have found it hard to build up the long-term relationships which form the core business of the establisbed firms.

The latest big international player in this field is Aon Consulting, an arm of Aon, the US insurance broking group. A recent press release was heavily laced with jargon about global services to multinationals seeking "integrated buman resources and benefits consulting".

In tbe UK, Aon bas brought the recently merged Clay & Partners and Alexander & Alexander into a new combination with Godwins, creating a business with 1,300 staff and links around the globe. Aon has also just bought a German firm, and now has 550 people in continental Europe.

Mr Ron Amy, chief executive of Aon Consulting, says Aon is in the distribution business, and with operations in some 30 countries has global reach. However, be admits that the consolidation has been primarily driven by the general insurance side rather than by benefits consulting.

In tbe UK Aon remains very busy. "There has been no lull post the Pensions Act," says Mr Amy. As to the DC shift: "We have large DC clients wbo are just as demanding of our time as defined benefit clients," be points out. "We are continually recruiting. There is lots of demand for our services."

2 EMPLOYEE BENEFITS CONSULTANTS

INVESTMENT CONSULTING • by Jane Martinson

Move to managed funds

Pension fund trustees are seeking new tools to cope with fresh responsibilities

When George Russell, one of the pioneers of the investment consulting business, first won a contract to advise on the performance of a pension fund manager in 1969 he offered what would now be considered a limited service.

All that the founder of the Frank Russell Company, now one of the world's largest investment consulting firms, wanted to prove was that his advice on managing the company's pension fund would save his client money.

While that principle remains the raison d'etre of the investment consulting industry, companies are offering an increasingly diversified range of products and services in response to an increasingly sophisticated market.

Legislative changes combined with advances in new technology have created a willing market among pension fund trustees looking for new tools to tackle new responsibilities.

Kenneth Ayres, an adviser at Russell who has been in tha industry for more than 30 years, says: "The appraisal of fund managers is still the core of our business but there are certainly many more products wa offer."

One of tha latest and most ambitious offerings is that of managed funds. The schemes offer pension funds the chance to outsource the work of a fund trustee.

Managed fund schemes are designed to put the burden of choosing, monitoring and changing fund manager directly on to the consultant. Normally, they are run as pooled investment vehicles offering a variety of managers, assets and styles for a fund which is made up of different companies.

While trustees retain their fiduciary duty under UK law to protect the interests of the pensioners, all other decisions can be taken by the consultant employed to run the managed fund.

Mr Ayres says: "The movement to the management of funds is fairly recent and there are not many of us in it." The industry for managed funds is more established in the US than the UK.

The pooled nature of the funds is designed to attract smaller pension funds with assets of up to £50m. However, larger funds also use the products to test a particular product.

Sedgwick Noble Lowndes, the employee benefits consultants, launched a full service managed fund division in the UK two months ago. The Flexifund was started as a pilot project in November last year and the division has made £21m in sales so far from 26 clients. The consultancy says it launched the new service in response to demand for a service which removed the trouble of manager selection and assessment.

Owen Sweetman, a director of SNL's managed fund division, says the group has also launched a product with a fund which offers a group personal pension scheme an independent board of four trustees appointed from outside the company.

The costs of these managed funds are typically about 1 per cent of funds under management, from which a fee is paid to the fund managers which actually manage the money.

This is far higher than a large pension fund would expect to pay for asset management services but the consultants argue that the fees represent a saving for smaller firms. They maintain that by pooling tha assets of sevaral pension funds they can negotiate fee breaks from the fund managers.

Consultants also argue that cost-cotting is not the main reason for the move to managed funds. "The big advantage is the spread of managers which smaller companies are not usually able to achieve," said one consultant. Using a variety of managers and styles also limits risk, they argue.

The advantages for consultants are fees and the ability to reach a wider range of pension funds. Mr Ayres says: "This is a very important development because it enables our expertise to be used in a wider range of fund sizes." The increasingly consolidated industry is typically chasing fewer and fewer of the bigger companies and managed fund services add another dimension to the client list.

Managed funds appear to be gaining ground. Frank Russell first offered the service three years ago in the UK and now manages $1bn there and $30bn worldwide. But their increased use is likely to fuel the debate about who measures the consultants.

While the growth of managed funds is an area of central interest the consulting industry has seen other developments, centred on legislative changes and including advanced asset and liability studies.

The Pensions Act which came into force earlier this year will force funds to match future payments with assets more exactly. New computer techniques enable consultants to analyse the performance of asset classes more scientifically.

Many in tha industry believe the pace of change is unlikely to slow. Mr Sweetman says there are "massive changes afoot". Among them is the impact of a single currency in Europe, which is expected to change dramatically the asset allocation of pension funds because they will be able to match domestic liabilities with assets held in other parts of Europe. "With increased globalisation and new areas of growth, we certainly haven't seen the end of change," adds Mr Sweetman.

PROFILE Watson Wyatt

An eye to the future

The firm is repositioning itself in the employee benefits area

The job of an actuary is to make accurate predictions about future events, such as life expectancy and returns on investments, and Watson Wyatt has been advising clients on the future for longer than any other firm in the UK. But now, as a result of the profound changes in the business world, the firm is repositioning itself.

Since Reuben Watson took his first client in 1878, the business has grown from a family firm into an international alliance with the Wyatt Company of the US, employing 6,500 people around the world. It already carries out actuarial services for 40 of the biggest 100 pension funds in the UK.

This is the backbone of its business which includes valuing schemes' assets and liabilities and advising on investment managers. But now the firm wants to work not just with pensions departments but with human resources directors as they review how to reward staff following fundamental changes to their businesses.

According to a new global management study by Watson Wyatt, almost 40 per cent of companies around the world have been involved in mergers or acquisitions in the past two years – the alliance of R.Watson & Sons and the Wyatt Co only took place in 1995.

Two-thirds of these companies have reorganised their business and almost a third have outsourced part of their work.

Watson Wyatt is repositioning itself in this era of change as an employee benefits consultancy. "Activities such as mergers, demergers and management buy-outs trigger change and require a re-evaluation of how employers reward staff," said Mr Russell Smith, marketing manager at Watson Wyatt.

The firm does not believe the move will create clashes with the global accountancy firms.

"It is more likely we will be working with the likes of Arthur Andersen," said Mr Paul Thornton, a partner at Watson Wyatt. "They work on business strategy and we fit in one level below on reward and human resource strategy."

But it remains to be seen how Watson Wyatt will stand up to the human resource specialists such as Towers Perrin, which has a greater bias towards employee benefits as a whole rather than pension fund work alone.

In the US, the world's most developed market for human resources consultancy, Watson Wyatt remains behind William M Mercer and Towers Perrin. But it has strong business connections.

Fidelity Investments, the world's largest investment manager, uses its systems and it has a joint venture with State Street bank in systems management for pension fund outsourcing. The US remains its largest source of revenue. Last year it provided £260m, two-thirds of its income worldwide.

The UK provided a healthy £80m, but the contribution of continental Europe remains tiny. Countries such as France and Italy are still so reliant on unfunded state pension systems that there is little call for independent actuaries.

Watson Wyatt's European offices will instead do business with multinational companies such as IBM, which regard Europe increasingly as a single business area and want uniform advice for all their subsidiaries operating there. In the UK Watson Wyatt claims to be positioned with William M Mercer as the top providers of actuarial services.

Paul Thornton: the need to be the biggest is wrong

Although it wants to be a global participant in human resources, Watson Wyatt dismisses the trend for consolidation that has seen some of the accountancy giants prepare to merge.

Mr Thornton said: "There is a fear factor in these organisations. I'm sure many peopla inside Coopers & Lybrand and Price Waterhouse do not want to merge." He believes they have got it wrong in wanting to be the biggest.

The line is ironic because Watson Wyatt is itself the product of an alliance between by a UK firm and a US company both with aspirations to expand. But Watson Wyatt's arrangements are unusual.

The two appear united to the outside world under the official name Watson Wyatt Worldwide, but in fact either party is free to walk away from the agreement.

Brendan Maton

EUROPE • by Jonathan Guthrie

New source of income on the way

Consultants are hoping to cash in on the switch to privately-funded pensions

A continuing – and worsening – pensions crunch in Europe is creating a huge beadache for politicians. That is good news for employee benefits consultants who hope to tap a new source of fee income as private funds are set up in response.

Since the second world war, pensions provision in continental Europe has been based on state-run pay-as-you-go schemes in which pensions for retired people are deducted from current taxation. This works well, as long as the ratio of elderly to workers is in balance. However, birth rates have been falling.

This is partly due to a rising standard of living, and partly because of the generosity of state-run PAYG schemes – people no longer see the need to produce a large family to support them in old age when the state will do the job instead.

The result is a looming crisis for countries where a high proportion of pensioners' incomes comes from the government, such as France, Germany and Italy.

Countries such as the UK, Netherlands and Republic of Ireland, are, in contrast, in relatively good shape.

They all have healthy systems of private funded schemes which are often supported by employers. These are more cost-effective than PAYG schemes because contributions are invested in stock markets which over the long term generally produce returns higher than inflation.

The European Commission is, therefore, promoting privately funded schemes as the antidote to the EU's pension ills. France and Italy have already trimmed state pensions and introduced laws intended to boost the private sector.

Spain is ahead of the rest, having brought in legislation with the same intention in 1987.

Anglo-Saxon employee benefits consultants foresee a bright future to continental Europe on the basis that as more private pension schemes are set up there will be more demand for their skills.

Continental Europe, however, will not be a walkover. The first problem is that funded provision is unlikely to grow as rapidly as the Commission hopes.

Voters are unlikely to be happy with the idea of paying twice for pensions: once for today's elderly, and a second time for their own retirement.

A second snag arises when businesses with Anglo-Saxon roots assume – usually wrongly – that continental clients will be happy with the style of consulting used in the US and the UK.

Jonathan Heller, a consultant on European employee benefits says: "In Germany for example, corporate clients have always been concerned with complying with the complex legal requirements on pensions.

"So it can be better to apply a packaged solution that has worked in the past than the kind of creative approach popular in the UK."

"Similarly, benefits consultants have lost business in France by imposing Anglo-Saxon valuation disciplines on French clients, when it would have been wiser to comply with traditional French methods."

A pensions crisis is looming in countries such as France, Germany and Italy

Gaffes of this kind merely encourage the natural tendency of continental companies to turn to local consultants – thriving businesses in both Germany and the Netherlands – for advice.

David Strauss, chairman of benefits consultants Sedgwick Noble Lowndes group says: "We are trying to avoid setting up English outposts in continental centres - instead we try to establish local offices with local skills, and build a multinatiooal capability on top of that."

For Europe is just one part of a worldwide jigsaw for employee benefits consultancies aiming to operate on an international level.

Their aim, says Philip Cockbain, UK managing partner at Watson Wyatt, "is to ensure that multinational companies get a seamless service – they want to have a relationship with one multinational consultant, not a handful of local ones."

The trend foreseen by business managers such as Mr Cockbain is for multinationals to specify the range and level of benefits centrally.

This should improve staff mobility, instead of hindering it, as the prevalent locally-based approach may do.

The consultants suggest that multinationals will in future pool the investments backing pensions and insurance commitments in each country where they have staff in order to establish consistency of investment aims and economies of scale.

The benefits consultants that would win tha lion's share of business from multinationals would be those with a correspondingly wide network of offices around the world and a consistent approach.

The businesses that fit the bill include Mercers, Watson Wyatt and Towers Perrin.

Mercers has a long track record of international activity and 87 offices in 25 countries.

It is the world's largest employee benefits consulting firm with global revenue last year of $1.16bn, putting it just behind the seven largest accountancy firms.

Watson Wyatt has 80 offices in 36 countries, though its revenue is only just over half that of Mercer, and around $250m behind Towers Perrin's.

These businesses all derive a big chunk of their income from the US. This generated around 60 per cent of Mercer's 1996 revenues, against just 20 per cent from Europe and less than 10 per cent from the Far East.

Employee benefits consultancies have some way to go to become truly international, rather than US-based organisations with a growing business in advising overseas clients.

However, a US bias can be a positive advantage in building up a business with multinational customers, for many of these also have their roots in the US.

Alan Botterill head of European employee benefits at Mercers admits it can be tough to break into overseas markets. "Where we are making progress is in servicing international clients, and the starting point there is US-based multinationals."

PROFILE Coopers & Lybrand

Accountants with a personnel touch

Business is moving towards increased organisational effectiveness

Coopers & Lybrand claims to be the fifth largest human resources consultancy in the world and one of only two of the Big Six accountancy firms to be heavily involved to this area of business.

Worldwide it employs 4,000 people in human resources; half of them work in the US. It offers companies advisory services ranging from share option schemes for senior executives to software for operating reward strategies for staff.

Not surprisingly for a business built on its accountancy practice, tax is the bedrock of Coopers & Lybrand's human resource advice. "When you contemplate a human resources policy, the important things are tax and social security," said Owain Franks, a UK partner at Coopers & Lybrand. "Then come education and housing."

He claims that even a transfer of senior executives from England to the Low Countries can create problems. "The Netherlands can have punitive tax rates for share incentive schemes. In Belgium there is an official wage freeze and it is illegal simply to give someone a pay rise." Mr Franks says companies need to know about these details as they relocate increasing numbers of staff around the world. He believes all the leading human resources providers see the world going the same way: towards increased organisational effectiveness.

Employers will have to manage personnel better

Owain Franks: tax and social security are important factors

and take more responsibility for the benefits offered to them, not merely in a paternalistic way but also for the health of the company itself. It also means measuring employees' competency and the effectiveness of reward strategies.

Coopers & Lybrand likes to talk to the decision makers in companies – the human resources directors. "We see them as the buyers of our services and we should be able to address their problems," said Larry Schumer, a UK partner in Coopers & Lybrand.

For example, the firm's HR Spectrum software enables companies to create programmes which measure the competency of their entire workforce on an individual basis, or evaluate the cost of any proposed change to the remuneration strategy. It costs between £15,000 and £250,000 to install and the firm claims further maintenance expense is negligible.

Alan Gibbons, the partner responsible for Spectrum, said Coopers & Lybrand deals with any service problems itself because clients do not want to deal with third party contractors. "They just want a system that works and trust us to provide it," he said.

Coopers & Lybrand is one of the top five advisers to human resources in the US, the world's largest market.

Pensions remain the most significant employee benefit for any US company. A tenth of the US's top 2,000 companies have outsourced their pensions administration to Coopers & Lybrand. Its business is growing by 40 per cent each year and this January it bought another provider, Kwasha Lipton to boost its presence in this market.

Coopers & Lybrand claims only Towers Perrin and Hewitt administer a greater number of schemes.

But Coopers & Lybrand has not enjoyed a similar success in the UK, partly because outsourcing has yet to gain momentum there. Pension funds also prefer to give actuarial work to their existing advisers. As an industry, UK pension funds are content to view Coopers & Lybrand as an auditor.

Coopers & Lybrand's actuarial practice provides some innovative services. It will, for example, willingly value a fund within a matter of days compared with the accepted business practice of once every three years .

But perhaps it is too successful as an auditing practice for pension funds to be willing to consider its other services. If its merger with Price Waterhouse goes ahead the new firm would have the seventh largest actuarial practice in the UK, but it remains to be seen how keen blue-chip businesses will be to hire it.

Brendan Maton

4 EMPLOYEE BENEFITS CONSULTANTS

INFORMATION TECHNOLOGY • by Joia Shillingford

Want a pension? Ask a computer

Information technology is a potent tool but the human touch is still necessary

Can computers replace human actuaries and pensions administrators? Not according those working in the profession. But large companies are buying systems that answer many of their pensions and benefit questions.

The automated systems include Impact, an interactive computer model for finance directors, from actuarial consultancy Bacon & Woodrow. "This helps finance directors calculate the impact of pension costs on the profit and loss sccount over 10 years," says Raj Mody, a consultant at the company.

Bacon & Woodrow also sells Vector, a system which helps the pensions or personnel manager work out what additional voluntary contributions en employee must pay to bring his or her pension up to the desired level. It is also possible to provide AVC or other information over an intranet (a private internet).

Watson Wyatt, an employee benefits company, has helped Apple Computer design an intranet-based Flex enrolment system in the US. Employees can use Apple's intranet to select Flex employee benefits (such as dental or health plans) from a number of options and see what they will cost. They can perform "what if" calculations based on their own financial data because the system is linked to their pension records.

"Computer-based systems for mixing and matching UK employee benefits are likely to be a big development for the future," according to Russell Smith, marketing manager of Watson Wyatt in the UK.

Automated systems have been developed to inform staff about new employee benefits programmes. Watson Wyatt has designed bespoke multimedia systems for Glaxo, Xeneca and BBC employees. "Multimedia systems can be quite creative," he says. "For example, the Glaxo system is designed around the analogy of going into a chemist's shop and topping up a test tube with different options."

Mr Smith points out that the challenge in designing these systems is to provide enough informetlon for employees to make informed decisions without overwhelming them. The systems can cost np to to six figures.

"But small modifications to a basic package come in at around £10,000 to £20,000," says Mr Smith. Ouline systeme contalning employee benefits and pensions information are also becoming popular.

Bacon & Woodrow offers ONLINE! and Byron West, communications director at Sedgewick Noble Lowndes, says it is considering turning its Surfboard intranet into an extranet (a wider intranet) so thet clients will have direct access to some of its data.

Such systems contain mnch of the information used by actuaries themthemselves. Their advantage is that clients are provided with the latest data. The clients pay to use online services but this will often be cheaper than calling an actuary.

Should actuaries be worried by these developments? Not yet. There are limits to the range of information a computer can provida while still being easy to use. This means they are best used for routine qnestions or calculations. When more complex information is involved, an actuary will prohably be needed.

In fact, many interactive computer models are designed for actuaries to use with clients, not for use by clients alone. The models help them to offer a better service to customers, with "what if" calculations performed on the spot. This speeds up the response to tha customer.

Such models have become popular over the past few years as low-cost personal computars have become increasingly powerful.

An interactive model from Bacon & Woodrow or Aon Consulting can work out how close the match is between a company's pension assets and its liabilities. There are also models for assessing the pros and cons of defined contribution pension schemes.

Interactive models used by employee benefit consultants or actuaries are usually based on the Microsoft Excel spreadsheet and run on laptops or PCs. Most interactive computer models are developed in-house by employee benefits and actuarial companies such as Watson Wyatt, Aon Consulting, Sedgewick Noble Lowndes and Bacon & Woodrow.

Pensions administration systems used to be developed in house, but this is changing. Aon and Bacon & Woodrow no longer provide their own proprietary pensions systems. They use the leading PC-based pensions system Profund from tha UK company of the same name.

Bacon & Woodrow pulled out recently. Aon used to have a separate software development arm, which it closed down 18 months ago.

Watson Wyatt still has its own IBM mainframe-based system while Sedgewick Noble Lowndes is about to introdnce snbstantial improvements – such as faster response time – on its pensions administration system.

Watson Wyatt says it is not marketing its PMS 6000 system aggressively and is focusing on large corporates (including those which want to outsource pensions administration), and insurance companies which use it to manage their own products. In the US it offers pension administration through Wellspring, a joint venture with State Street, an investment management company.

Why are so few companies offering their own pensions systams? Philip Bretnall, deputy practice head of pensions administration at Aon Consulting, says: "Pensions legislation has been changing so fast it is difficult to keep a system developed in house up-to-date. Moreover what tends to happen is that you respond to your clients' needs first, leaving little capacity for making the changes you need for internal work."

The pensions administration products on the markat include C E Heath's PC-based Heathpens, Edis International's PensionsOffice and CPX from Heywoods. Yet there are few employee benefits-actuarial systems available off the shelf.

Most of these systems are prodnced by employee benefits companies. So they gain whether customers buy their software, or their advice. But thair IT monopoly will not last for ever. Peoplesoft, a US software company, is one to watch in the employee benefits area. But because every company's pension benefits scheme is different employee benefits consultants and actuaries will be around for some time to come.

INSURANCE PRACTICE • by Christopher Brown-Humes

Scandal keeps the independents busy

There has been a rush of work related to UK pensions mis-selling

Independent actuaries specialising in insurance are not complaining about a lack of work. Indeed, they say 1997 has been a particularly busy year, not least because of continuing consolidation in life assurance and the impact of the pensions mis-selling scandal in the UK.

The extra workload comes at s time when some actuaries are expanding their general insurance consultancy business. Consolidstion in the life industry has continued this year with Prudential's acquisition of Scottish Amicable, the merger between Sun Life & Provincial and Axa Equity & Law, and Canada Life's purchase of Albany Life.

Deals like this are important to independent actuaries Gary Welis, head of the insurance division at Hymans Robertson, says: "If vou merge two companies, ao independent sctuary needs to be involved to ensure policyholder interests are protected."

Indeed, to ensure complete independence when a deal is being negotiated, the UK Department of Trade and Industry insists that the outside actuary or firm has not acted for either management. This sometimes rules out the big actuarial consultancies, but has been a useful source of income for small consultancies and retired actuaries.

Meanwhile, there has been a rush of consultancy work related to pensions mis-selling, as the government and regulators have forced a step change in pension providers' efforts to clean up the saga by the end of next year.

Independent actuaries are not so much engaged in the hard number crunching and compensation calculations, which teod to be done in-house, but in broader areas sucb as management of the process and fast-tracking.

Icki Iqbal, an associate of Bacon & Woodrow, says pensions mis-selling is "the biggest resource eater in the life insurance industry at the moment. There sren't enough people with adequate level of knowledge to enable companies to meet the challenge set by the government."

Once the mis-selling scandal is cleared up, new opportunities for independent actuaries should emerge. These include long-term care – once government has set out ground rules – and the strategies insurers need to adopt to cope with European economic and monetary union. Emu will force insurers to do "some serious scenario testing on asset-liebility matching," says Mr Iqbal.

Mr Welle, at Hymans Robertson, says general insurance is the fastest growing part of the company's insurance business. Some of tnat growth has been linked to the creation of Equitas, which took on many of Lloyd's of London's old liabilities and the requirement for actuaries to certify the solvency reserves of Lloyd's of London syndicates.

He says: "In general insurance, in-house actuaries are becoming more prevalent, but are still far from the norm."

Bnt he notes there is "more uncertainty in providing general insurance advice than advice to a life or pension fund." This means independent actuaries have to be clear about "what they have done, what they have assumed and what they have caveated out" when they prepare their reports.

Such nervousness is understandable in the wake of the NRG/Bacon & Woodrow/Ernst & Young case several years ago. This drew attention to the legal responsibilities of independent actuaries and tbe potential for them to be sued for bad or negligent advice.

NRG, a Dutch reinsurer, claimed damages from Bacon & Woodrow and Ernst & Young for alleged negligence in giving professional advice. The case related to NRG's disastrous £122m acquisition of Victory Reinsurance from Legal & General in 1990.

NRG lost its action in June last year, but had it won, Bacon & Woodrow partners could have been individually liable for damages, leaving many facing financial ruin. NRG's claim ran to hundreds of millions of pounds.

This has concentrated minds. David Hager, Bacon & Woodrow's partner responsiole for financial and commerciel matters, says the company spent a lot of time, in the wake of the case, looking at the possibility of registering as a limited liability company in Jersey but decided against it.

"We are not interested in going to Jersey, but we are interested in seeing the new government's proposals on limited liability partnerships on the mainland." These are due to be published within the next 18 months.

In the meantime, the company has agreed contractual liability caps with a large number of its clients. These put a limit on the amount for which a company could be sued in any one case.

"We are the only firm of actuaries to my knowledge that has a large number of liability caps with their clients," says Mr Hager.

But being sued is just one potential risk to independent actuaries' insurance businesses. Another danger is that in-house actuaries will simply usurp the role of the Independents. Mr Iqbal thinks this is very unlikely, arguing that the independents offer as well as independence, specialist technical knowledge and a wider perspective. "In house actuaries, no matter how senior sometimes cannot see the wood for the trees," he says.